

# Indiana State Teachers' Retirement Fund

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## 2004 Fiscal Operations Report



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William E. Christopher, Ph.D.

Indiana State Teachers' Retirement Fund  
150 West Market Street, Suite 300  
Indianapolis, Indiana 46204-2809



## Indiana State Teachers' Retirement Fund

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November 1, 2004

The Honorable Joseph E. Kernan  
Governor of the State of Indiana  
Members of the Indiana General Assembly  
State House  
Indianapolis, IN 46204

Dear Governor Kernan and Members of the General Assembly:

It is our privilege to submit the 2004 Fiscal Operations Report for the Indiana State Teachers' Retirement Fund (ISTRF) as required by I.C.5-10.2-2-1. It is rewarding for the Fund's staff to look at a statistical measure of the many accomplishments that have been made over the last several years.

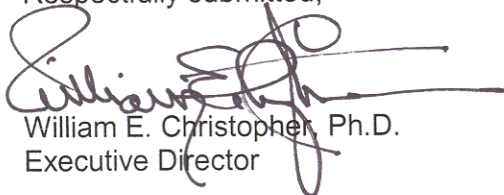
In addition to statistical data, actuarial information, investment performance and benchmark data, charts are available to offer a yearly comparison of ISTRF to other state Funds. The report also provides financial statements in several keys areas.

This year, along with the Public Employees' Retirement Fund (PERF), ISTRF completed a major change in our data management system. This was a large project that combined the data management systems of ISTRF and PERF. To formalize this working relationship, ISTRF and PERF formed a new corporate entity known as *Indiana Pension Systems Incorporated*.

This new organization was developed over many months and establishes a working non-profit business dedicated to the operation of our joint data management system. The members of the Board of Directors are appointed by each retirement Fund's board of trustees and operate under the same door and ethics guidelines as other Indiana State agencies. With future reports, we will include the financial and operational reports for the Indiana Pension Systems Incorporated.

Our goals and accomplishments from 2002 to the present can be found at the end of the report. While many projects continue to be ongoing in nature, many goals have been met with positive results. Our number one goal remains the same: "To prudently manage the Fund in accordance with fiduciary standards, provide quality benefits and deliver a high level of service to its members, while demonstrating responsibility to the citizens of the State."

Respectfully submitted,



William E. Christopher, Ph.D.  
Executive Director

# Mission Statement

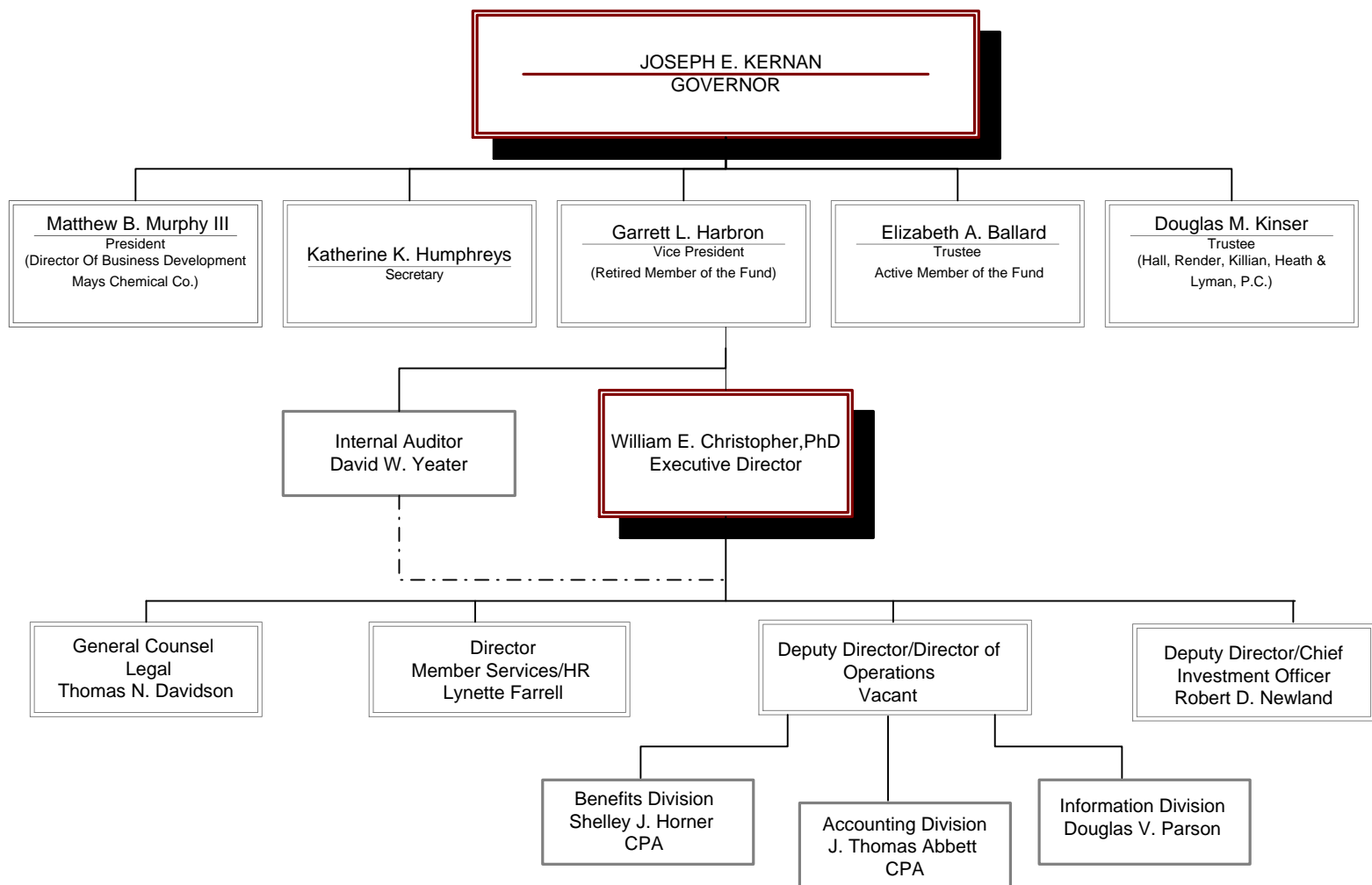
The mission of the Indiana State Teachers' Retirement Fund is to prudently manage the Fund in accordance with fiduciary standards, provide quality benefits, and deliver a high level of service to its members, while demonstrating responsibility to the citizens of the State.

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## Core Values

The Indiana State Teachers' Retirement Fund, as an organization, holds the following core values in all working relationships:

- ◆ Professionalism, respect, and compassion in dealing with others;
- ◆ Diversity, both of ideas and people;
- ◆ Open communication, collaboration, and cooperation;
- ◆ Integrity and the avoidance of conflicts of interest;
- ◆ Courtesy and timeliness;
- ◆ Accountability;
- ◆ Innovation and flexibility; and
- ◆ Commitment to and focus on our mission.



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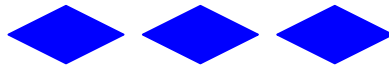
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# **FINANCIAL STATEMENTS**



**INDIANA STATE TEACHERS' RETIREMENT FUND**  
**STATEMENT OF PLAN ASSETS**  
**AS OF JUNE 30, 2004 AND 2003**

	<u><b>2004</b></u>	<u><b>2003</b></u>
<b>Assets</b>		
Cash and Short-Term Investments	\$ 511,385,212.13	\$ 813,083,965.72
Securities Lending Collateral	1,284,968,882.12	967,448,636.84
	<u>1,796,354,094.25</u>	<u>1,780,532,602.56</u>
<b>Receivables</b>		
Employer Contributions Receivable	23,598,250.73	35,825,516.00
Member Contributions Receivable	28,672,912.17	27,974,511.11
Investments Sold	701,985,536.56	60,095,218.95
Investment Income	28,828,150.73	31,484,239.28
Total Receivables	<u>783,084,850.19</u>	<u>155,379,485.34</u>
<b>Investments, at Fair Value</b>		
Bonds	2,913,110,361.03	3,031,449,641.65
Equity Investments	3,536,743,389.63	2,400,127,247.61
Indiana Pension Systems, Inc.	500,000.00	0.00
Real Estate (at cost)	260,000.00	260,000.00
Total Investments	<u>6,450,613,750.66</u>	<u>5,431,836,889.26</u>
Furniture and Equipment, at cost, net of accumulated depreciation of \$408,309.93 and \$382,686.95 respectively	<u>79,034.04</u>	<u>88,843.32</u>
Prepaid Expenses	<u>26.75</u>	<u>26.75</u>
Total Assets	9,030,131,755.89	7,367,837,847.23
<b>Liabilities</b>		
Accounts Payable	2,966,796.84	3,849,409.02
Securities Lending Collateral	1,284,968,882.12	967,448,636.84
Payable for Investments Purchased	<u>990,420,824.23</u>	<u>242,882,913.25</u>
Total Liabilities	<u>2,278,356,503.19</u>	<u>1,214,180,959.11</u>
<b>Net Assets held in trust for pension benefits</b>		
	<u>\$ 6,751,775,252.70</u>	<u>\$ 6,153,656,888.12</u>

UNAUDITED

**INDIANA STATE TEACHERS' RETIREMENT FUND  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2004 AND 2003**

	<u><b>2004</b></u>	<u><b>2003</b></u>
<b>Additions</b>		
Contributions:		
Employer	\$ 322,006,723.08	\$ 478,148,545.83
Employer - Pension Stabilization	22,500,000.00	30,000,000.00
Employer - 96 Fund	80,381,014.54	94,083,229.63
Fund Member	114,364,284.73	108,843,965.19
Total Contributions	<u>539,252,022.35</u>	<u>711,075,740.65</u>
Investment Income		
Net Appreciation(Depreciation)	547,774,850.02	138,621,646.78
Interest	135,319,501.30	174,797,678.50
Dividends	49,988,442.68	38,389,659.54
Securities Lending Income	12,566,565.44	1,041,853.94
	<u>745,649,359.44</u>	<u>352,850,838.76</u>
Less Investment Expense:		
Investment Expenses	(12,538,435.47)	(11,782,712.14)
Securities Lending Fees	(10,016,828.09)	0.00
Net Investment Income	<u>723,094,095.88</u>	<u>341,068,126.62</u>
Transfers from PERF	<u>0.00</u>	<u>0.00</u>
Adjustments to Accounts Payable	0.00	3.93
Gift from Members	0.00	0.00
Transfer of Outdated Checks	<u>(22,006.15)</u>	<u>(51,146.91)</u>
Total Additions	<u>1,262,324,112.08</u>	<u>1,052,092,724.29</u>
<b>Deductions</b>		
Benefits	647,173,472.21	611,607,468.77
Voluntary and Death Withdrawals	9,703,863.93	7,396,641.39
Administrative Expense	4,705,283.48	4,921,539.85
Capital Projects	2,597,505.90	3,297,613.50
Depreciation Expenses	25,621.98	16,813.57
Transfers to PERF	0.00	0.00
Total Deductions	<u>664,205,747.50</u>	<u>627,240,077.08</u>
<b>Net Increase</b>	598,118,364.58	424,852,647.21
<b>Net assets held in trust for pension benefits</b>		
Beginning of year	<u>6,153,656,888.12</u>	<u>5,728,804,240.91</u>
End of Year	<u>\$ 6,751,775,252.70</u>	<u>\$ 6,153,656,888.12</u>

UNAUDITED



**SCHEDULE OF ADMINISTRATIVE EXPENSES  
FISCAL YEAR ENDING JUNE 30, 2004**

**PERSONAL SERVICES:**

TRUSTEES PER DIEMS	\$9,856.00
STAFF SALARIES	\$2,066,823.52
SOCIAL SECURITY	\$154,544.37
RETIREMENT	\$231,590.48
INSURANCE	\$296,761.33
PERSONNEL RECLASSIFICATION/ADDITIONAL STAFFING	\$0.00
TEMPORARY SERVICES	<u>\$21,179.93</u>
Total Personal Services	\$2,780,755.63

**PROFESSIONAL & TECHNICAL SERVICES:**

ACTUARIAL	\$119,450.00
DATA PROCESSING	\$385,164.23
HEALTH INSURANCE CONSULTANT	\$17,600.00
DATA PROCESSING CONSULTANT	\$0.00
AUDIT	\$35,502.00
STRATEGIC PLANNING CONSULTING	\$0.00
BENCHMARKING	\$25,000.00
Compensation Classification Consulting	\$0.00
LEGAL SERVICES	\$95,592.37
MEDICAL EXAMINATIONS	\$70.50
PENSION DEATH RECORD COMPARISON(PBI)	<u>\$21,144.00</u>
TOTAL PROFESSIONAL & TECHNICAL SERVICES	\$699,523.10

**COMMUNICATION:**

PRINTING	\$339,428.79
TELEPHONE	\$59,390.54
POSTAGE	\$422,583.79
TRAVEL	<u>\$21,012.21</u>
TOTAL COMMUNICATION	\$842,415.33

**MISCELLANEOUS:**

ADMINISTRATIVE LEGAL SERVICES	\$10,591.32
MEMBERSHIP & TRAINING	\$77,883.92
EQUIPMENT RENTAL	\$15,250.98
SUPPLIES	\$40,748.00
MAINTENANCE	\$19,345.45
BONDING	\$2,019.00
DEPRECIATION	\$25,621.98
OFFICE RENT	<u>\$216,750.75</u>
TOTAL MISCELLANEOUS	\$408,211.40

TOTAL ADMINISTRATIVE EXPENSES	\$4,730,905.46
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UNAUDITED

# SCHEDULE OF INVESTMENT EXPENSES

FISCAL YEAR ENDING JUNE 30, 2004

## **Custodial**

The Northern Trust Company	<u>\$100,000.00</u>
<i>Total Custodial</i>	<u>\$100,000.00</u>

Investment Consultant	\$232,312.50
Investment Benchmarking	\$15,000.00

## **Management**

### **Fixed Income Managers**

Alliance Capital Mgmt.	\$1,056,787.00
Reams Asset Mgmt.	\$1,492,271.00
Taplin, Canida, Habacht	\$176,142.08

### **Equity Managers**

Barclays	\$134,859.65
Rhumblin	\$181,095.71
PIMCO	\$1,139,898.00
Bank of Ireland Asset Management	\$1,051,590.31
Alliance Capital Management	\$305,807.00
Earnest Partners, LLC	\$140,808.00
GE Asset Management	\$169,873.00
Institutional Capital Corp.	\$178,331.00
Pacific Financial Research, Inc.	\$237,765.00
Enhanced Investment Technologies, Inc.	\$238,659.70
Holt-Smith & Yates Advisors	\$227,658.00
Dresdner RCM Global Advisors	\$212,551.00
Putnam	\$146,533.69
Franklin	\$354,021.85
Aeltus	\$1,245,221.05
TCW	\$690,026.29
Ariel Capital Management	\$1,000,707.92
Brandywine Asset Management, Inc.	\$833,587.02
Portfolio Advisors, Inc.	\$445,000.00

Total Money Management Fees	\$11,659,194.27
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### **TRF Investment Staff**

Staff Salaries	\$219,000.08
Fringe Benefits	<u>\$73,359.31</u>
	\$292,359.39

Investment Travel	\$24,347.87
Investment Management Software	\$37,900.00
Investment Transaction Fees	\$48,969.90
Administrative Investment Fees	<u>\$128,351.54</u>
Total Investment Fees	\$12,538,435.47

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## CAPITAL PROJECTS

	<u>TRF SHARED COST</u>		
	<u>FISCAL YEAR 2004</u>	<u>LIFE TO DATE</u>	<u>TOTAL PROJECT</u>
<b>NEW RETIREMENT INFORMATION SYSTEM</b>			
SYSTEM DESIGN AND DEVELOPMENT	\$ 1,630,552.42	\$ 10,192,555.43	\$ 11,823,107.85
PROJECT QUALITY ASSURANCE	\$ -	\$ 593,742.50	\$ 593,742.50
PROJECT MANAGER	\$ -	\$ 611,470.00	\$ 611,470.00
OUTSOURCING SERVICES	\$ 951,502.85	\$ 158,760.00	\$ 1,110,262.85
<b>REPLACE OFFICE HARDWARE</b>	\$ 15,450.63	N/A	N/A
<b>TOTAL CAPITAL PROJECTS</b>	\$ 2,597,505.90	\$ 11,556,527.93	\$ 14,138,583.20

# SCHEDULE OF FUNDING PROGRESS

(DOLLAR AMOUNTS IN MILLIONS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/77	\$346	\$2,145	\$1,799	16.13%	\$892	201.68%
6/30/79	417	2,582	2,165	16.15%	1,025	211.22%
6/30/81	484	2,957	2,473	16.37%	1,195	206.95%
6/30/83	747	3,338	2,591	22.38%	1,350	191.93%
6/30/85	1,091	4,023	2,932	27.12%	1,520	192.89%
6/30/87	1,409	4,837	3,428	29.13%	1,752	195.66%
6/30/89	1,737	6,205	4,468	27.99%	2,045	218.48%
6/30/91	2,190	7,182	4,992	30.49%	2,279	219.04%
6/30/92	2,496	7,949	5,453	31.40%	2,416	225.70%
6/30/93	2,812	8,508	5,696	33.05%	2,536	224.61%
6/30/94	2,768	9,087	6,319	30.46%	2,615	241.64%
6/30/95	3,103	9,675	6,572	32.07%	2,729	240.82%
6/30/96	3,263	10,331	7,068	31.58%	2,879	245.50%
6/30/97	3,750	11,044	7,294	33.96%	2,985	244.39%
6/30/1998	4,266	11,779	7,513	36.22%	3,095	242.75%
6/30/1999	4,971	12,671	7,700	39.23%	3,294	233.76%
6/30/2000	5,578	13,115	7,537	42.53%	3,283	229.58%
6/30/2001	5,810	13,524	7,714	42.96%	3,318	232.49%
6/30/2002	6,176	14,665	8,489	42.11%	3,610	235.15%
6/30/2003	6,555	14,747	8,192	44.45%	3,585	228.51%

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

(DOLLARS IN THOUSANDS)

YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS (a)	CONTRIBUTED BY EMPLOYERS (b)	CONTRIBUTED BY THE STATE (c)	PERCENTAGE CONTRIBUTED ((b + c) / a)
1981	\$181,640	\$2,858	\$107,588	60.80%
1983	181,575	2,503	93,207	52.71%
1985	214,776	5,910	174,399	83.95%
1987	236,695	6,810	129,907	57.76%
1989	319,429	7,804	154,627	50.85%
1991	357,575	8,539	232,861	67.51%
1992	394,291	9,377	197,250	52.40%
1993	413,622	9,180	194,900	49.34%
1994	433,044	11,013	219,782	53.30%
1995	456,835	10,977	228,200	52.36%
1996	488,278	15,907	297,451	64.18%
1997	508,939	28,761	508,867	105.64%
1998	508,260	41,098	424,252	91.56%
1999	524,815	56,650	555,700	116.68%
2000	547,532	70,641	576,800	118.25%
2001	537,789	83,285	605,900	128.15%
2002	572,226	100,826	465,400	98.95%
2003	638,541	111,931	490,300	94.31%
2004	619,186	96,858	328,029	68.62%

## PENSION STABILIZATION FUND

DATE	TRANSACTION DESCRIPTION	CONTRIBUTIONS	INTEREST EARNED	BALANCE
<b>1995</b>				
JULY 1	ESTABLISHMENT OF ACCOUNT			\$439,700,498.50
<b>1996</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$25,000,000.00		\$464,700,498.50
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$494,700,498.50
JUNE 30	CONTRIBUTIONS FROM STATE	\$92,851.68		\$494,793,350.18
JUNE 30	INTEREST CREDITED		\$39,573,044.87	\$534,366,395.05
<b>1997</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$24,999,998.97		\$559,366,394.02
JUNE 30	CONTRIBUTIONS FROM STATE	\$200,000,000.00		\$759,366,394.02
JUNE 30	CONTRIBUTIONS FROM STATE	\$93,567.95		\$759,459,961.97
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$789,459,961.97
JUNE 30	INTEREST CREDITED		\$45,421,143.58	\$834,881,105.55
<b>1998</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,000,000.00		\$909,881,105.55
JUNE 30	CONTRIBUTIONS FROM STATE	\$78,286.28		\$909,959,391.83
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$939,959,391.83
JUNE 30	INTEREST CREDITED		\$66,790,488.44	\$1,006,749,880.27
<b>1999</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,000,000.00		\$1,081,749,880.27
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,639.23		\$1,081,825,519.50
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,111,825,519.50
JUNE 30	INTEREST CREDITED		\$80,539,990.42	\$1,192,365,509.92
JUNE 30	DISTRIBUTION FROM UNDISTRIBUTED INVESTMENT INCOME		\$148,512,367.47	\$1,340,877,877.39
<b>2000</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$125,000,000.00		\$1,465,877,877.39
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$37,500,000.00		\$1,503,377,877.39
JUNE 30	CONTRIBUTIONS FROM STATE	\$38,810.02		\$1,503,416,687.41
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$15,506,789.63		\$1,518,923,477.04
JUNE 30	INTEREST/EARNINGS CREDITED		\$117,863,098.59	\$1,636,786,575.63
JUNE 30	DISTRIBUTION FROM UNDISTRIBUTED INVESTMENT INCOME		\$35,860,604.81	\$1,672,647,180.44
<b>2001</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$125,000,000.00		\$1,797,647,180.44
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,827,647,180.44
JUNE 30	CONTRIBUTIONS FROM STATE	\$45,735.83		\$1,827,692,916.27
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$19,650,613.19		\$1,847,343,529.46
JUNE 30	INTEREST/EARNINGS CREDITED		(\$14,302,550.56)	\$1,833,040,978.90
<b>2002</b>				
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,863,040,978.90
JUNE 30	CONTRIBUTIONS FROM STATE	\$43,876.37		\$1,863,084,855.27
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$13,798,154.19		\$1,876,883,009.46
JUNE 30	INTEREST/EARNINGS CREDITED		(\$90,065,130.79)	\$1,786,817,878.67
<b>2003</b>				
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,816,817,878.67
JUNE 30	CONTRIBUTIONS FROM STATE	\$34,359.51		\$1,816,852,238.18
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$19,287,539.68		\$1,836,139,777.86
JUNE 30	INTEREST/EARNINGS CREDITED		\$23,654,725.65	\$1,859,794,503.51
<b>2004</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$16,802.38		\$1,859,811,305.89
JUNE 30	FUNDS FROM PENSION PAYOUTS	(\$182,218,797.05)		\$1,677,592,508.84
JUNE 30	INTEREST/EARNINGS CREDITED		\$275,473,173.63	\$1,953,065,682.47
				<b>\$1,953,065,682.47</b>

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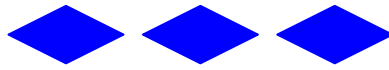
## SCHEDULE OF ALLOTMENTS RECEIVED AND ACTUAL PAYOUTS

STATE PENSION(100-745)				COLA'S (100-743)		
MONTH*	ACTUAL PAYOUT	ALLOTMENTS RECEIVED	OVERPAYMENT (SHORTAGE)	ACTUAL PAYOUT	ALLOTMENTS RECEIVED	OVERPAYMENT (SHORTAGE)
<b>2003-04</b>						
JULY	\$37,000,090	\$22,191,667	(\$14,808,424)	\$3,185,363	\$3,269,083	\$83,721
AUGUST	\$39,913,582	\$22,191,667	(\$17,721,915)	\$3,163,161	\$3,269,083	\$105,923
SEPT.	\$41,061,009	\$22,191,667	(\$18,869,343)	\$3,133,941	\$3,269,083	\$135,142
OCT.	\$38,364,583	\$22,191,667	(\$16,172,917)	\$3,109,143	\$3,269,083	\$159,941
NOV.	\$37,096,702	\$22,191,667	(\$14,905,035)	\$3,076,705	\$3,269,083	\$192,378
DEC.	\$36,720,276	\$22,191,667	(\$14,528,609)	\$3,049,502	\$3,269,083	\$219,581
JAN.	\$36,650,880	\$22,191,667	(\$14,459,214)	\$3,573,412	\$3,269,083	(\$304,328)
FEB.	\$36,726,611	\$22,191,667	(\$14,534,945)	\$3,537,104	\$3,269,083	(\$268,020)
MARCH	\$36,272,294	\$22,191,667	(\$14,080,627)	\$3,506,902	\$3,269,083	(\$237,818)
APRIL	\$36,332,316	\$22,191,667	(\$14,140,649)	\$3,482,914	\$3,269,083	(\$213,831)
MAY	\$35,756,008	\$22,191,667	(\$13,564,341)	\$3,446,737	\$3,269,083	(\$177,653)
JUNE	\$36,624,446	\$22,191,667	(\$14,432,779)	\$3,420,630	\$3,269,083	(\$151,547)
	<u>\$448,518,797.05</u>	<u>\$266,300,000.00</u>	<u>(\$182,218,797.05)</u>	<u>\$39,685,512.36</u>	<u>\$39,229,000.00</u>	<u>(\$456,512.36)</u>
						<b>\$12,725,316.30</b>

\* THE MONTH BENEFITS ARE PAYABLE, NOT THE MONTH  
THEY ARE PAID - THE MONTH OF JULY IS PAID ON AUGUST 1ST

UNAUDITED

**ACTUARIAL**



## INDIANA STATE TEACHERS' RETIREMENT FUND

### ACTUARIAL SUMMARY

	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>CHANGE</u>
PRE- 96 FUND UNFUNDED ACCRUED LIABILITY	\$7,626,313,285	\$7,942,425,773	-\$316,112,488
96 FUND UNFUNDED ACCRUED LIABILITY	<u>\$566,660,844</u>	<u>\$545,660,932</u>	<u>\$20,999,912</u>
TOTAL ACTUARIAL LIABILITY	<u>\$8,192,974,129</u>	<u>\$8,488,086,705</u>	<u>-\$295,112,576</u>

#### ACTUARIAL ANALYSIS OF CHANGE IN ACTUARIAL LIABILITY FROM PREVIOUS YEAR'S VALUATION:

##### PRE - 96 FUND:

DURING THE YEAR ENDING JUNE 30, 2003, UNFUNDED ACTUARIAL ACCRUED LIABILITY IN THE CLOSED PLAN DECREASED \$316.1 MILLION. THE DECREASE WAS THE RESULT OF NEW ACTUARIAL ASSUMPTIONS ADOPTED BY THE TRF BOARD OF TRUSTEES PURSUANT TO THE EXPERIENCE STUDY DATED AUGUST 14, 2003. THE TOTAL ACTIVE MEMBER PAYROLL ASSUMED INCREASE WAS REDUCED FROM 5.5% TO 4.5%.

##### 96 FUND:

DURING THE YEAR ENDING JUNE 30, 2003, UNFUNDED ACTUARIAL ACCRUED LIABILITY IN THE 1996 PLAN INCREASED \$21.0 MILLION. THE ABOVE MENTIONED NEW ACTUARIAL ASSUMPTIONS HAD A POSITIVE EFFECT ON THE UNFUNDED LIABILITY OF THE 96 FUND ALSO. HOWEVER, THIS BENEFIT WAS MORE THAN OFFSET BY THE FACT THAT TRANSFERS INTO THE NEW PLAN INCREASE THE UNFUNDED LIABILITY DUE TO PRIOR SERVICE RENDERED BY FORMER CLOSED PLAN MEMBERS WHOSE TOTAL SERVICE IS NOW COVERED BY THE 1996 PLAN AS A RESULT OF REHIRE OR CHANGE IN EMPLOYMENT.

##### NOTE:

THE FOLLOWING TWO PAGES CONTAIN ACTUARIAL DETAILS FOR THE FISCAL YEARS ENDING JUNE 30, 2003 AND JUNE 30, 2002.



## DEVELOPMENT OF ASSETS AND LIABILITIES

### JUNE 30, 2003

#### REPORTED ASSETS (MARKET VALUE BASIS)

Reserve Allocation	Closed Plan	New Plan	Total
<b>Member Reserves:</b>			
Active and Inactive	\$2,720,265,115	\$358,338,043	\$3,078,603,158
Retired	544,162,740	10,197,888	554,360,628
Total Member Reserves	3,264,427,855	368,535,931	3,632,963,786
<b>Employer Reserves:</b>			
Active	0	393,736,681	393,736,681
Retired			
Pension Stabilization Fund	1,859,794,504	0	1,859,794,504
Other	255,744,130	13,287,907	269,032,037
Total	2,115,538,634	13,287,907	2,128,826,541
Total Employer Reserves	2,115,538,634	407,024,588	2,522,563,222
Total Reserves	<b>\$5,379,966,489</b>	<b>\$775,560,519</b>	<b>\$6,155,527,008</b>

#### ACTUARIAL ACCRUED LIABILITY: COMPUTED AND UNFUNDED

	Closed Plan	New Plan	Total
<b>Retired Members and Beneficiaries:</b>			
Computed accrued liability	\$ 4,832,820,938	\$107,684,111	\$ 4,940,505,049
Allocated assets (market value)	2,659,701,374	23,485,795	2,683,187,169
Funding value adjustment	172,331,266	1,521,726	173,852,992
Unfunded Accrued Liability	2,000,788,298	82,676,590	2,083,464,888
<b>Active and Inactive Members:</b>			
Computed accrued liability	8,522,045,502	1,284,788,505	9,806,834,007
Allocated assets (market value)	2,720,265,115	752,074,724	3,472,339,839
Funding value adjustment	176,255,400	48,729,527	224,984,927
Unfunded Accrued Liability	5,625,524,987	483,984,254	6,109,509,241
<b>ISTRF Total:</b>			
Computed accrued liability	13,354,866,440	1,392,472,616	14,747,339,056
Allocated assets (market value)	5,379,966,489	775,560,519	6,155,527,008
Funding value adjustment	348,586,666	50,251,253	398,837,919
Unfunded Accrued Liability	<b>\$ 7,626,313,285</b>	<b>\$566,660,844</b>	<b>\$ 8,192,974,129</b>

## REPORTED ASSETS

The accrued assets at market value as of June 30, 2002 were reported to be \$5,722,753,180 and were allocated for valuation purposes as follows:

### Reported Assets (Market Value Basis)

<u>Reserve Allocation</u>	<u>Closed Plan</u>	<u>New Plan</u>	<u>Total</u>
<b>Member Reserves:</b>			
Active and Inactive	\$2,551,239,549	\$270,056,637	\$2,821,296,186
Retired	565,804,709	1,640,952	567,445,661
Total Member Reserves	3,117,044,258	271,697,589	3,388,741,847
<b>Employer Reserves:</b>			
Active	-	289,162,091	289,162,091
Retired			
Pension Stabilization Fund	1,786,817,879	-	1,786,817,879
Other	243,312,830	14,718,533	258,031,363
Total	2,030,130,709	14,718,533	2,044,849,242
Total Employer Reserves	2,030,130,709	303,880,624	2,334,011,333
Total Reserves	\$5,147,174,967	\$575,578,213	\$5,722,753,180

### Actuarial Accrued Liability: Computed and Unfunded

	<u>Closed Plan</u>	<u>New Plan</u>	<u>Total</u>
<b>Retired Member and Beneficiaries:</b>			
Computed accrued liability	\$4,411,727,837	\$17,338,655	\$4,429,066,492
Allocated assets (market value)	2,595,935,418	16,359,485	2,612,294,903
Funding value adjustment	205,860,864	1,297,328	207,158,192
Unfunded Accrued Liability	1,609,931,555	(318,158)	1,609,613,397
<b>Active and Inactive Members:</b>			
Computed accrued liability	9,086,050,193	1,149,544,549	10,235,594,742
Allocated assets (market value)	2,551,239,549	559,218,728	3,110,458,277
Funding value adjustment	202,316,426	44,346,731	246,663,157
Unfunded Accrued Liability	6,332,494,218	545,979,090	6,878,473,308
<b>ISTRF Total:</b>			
Computed accrued liability	13,497,778,030	1,166,883,204	14,664,661,234
Allocated assets (market value)	5,147,174,967	575,578,213	5,722,753,180
Funding value adjustment	408,177,290	45,644,059	453,821,349
<b>Unfunded Accrued Liability</b>	<b>\$7,942,425,773</b>	<b>\$545,660,932</b>	<b>\$8,488,086,705</b>

**CLOSED PLAN BALANCE SHEET**  
**SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS**  
**JUNE 30, 2003**

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**PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES**

	<b>Annuities</b>	<b>Pensions</b>	<b>Total</b>
A. Funding value of system assets			
1. Net assets from Fund financial statements	\$3,264,427,855	\$ 2,115,538,634	\$ 5,379,966,489
2. Funding value adjustment	211,513,589	137,073,077	348,586,666
3. Funding value of assets	3,475,941,444	2,252,611,711	5,728,553,155
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,280,639,569	1,280,639,569
2. For unfunded actuarial accrued liability	61,920,053	7,564,393,232	7,626,313,285
3. Total	61,920,053	8,845,032,801	8,906,952,854
C. Present value of expected future member contributions*	644,350,523	0	644,350,523
D. Total Present and Future Resources	\$4,182,212,020	\$11,097,644,512	\$15,279,856,532

**ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE  
BENEFIT PAYMENTS AND RESERVES**

	<b>Annuities</b>	<b>Pensions</b>	<b>Total</b>
A. To retired members and beneficiaries			
1. Annual benefits	\$ 641,340,982	\$ 4,191,479,956	\$ 4,832,820,938
2. Reserve	0	0	0
3. Totals	641,340,982	4,191,479,956	4,832,820,938
B. To vested terminated members	211,996,647	146,673,250	358,669,897
C. To present active members			
1. Allocated to service rendered prior to valuation date	2,684,523,868	5,478,851,737	8,163,375,605
2. Allocated to service likely to be rendered after valuation date*	644,350,523	1,280,639,569	1,924,990,092
3. Total	3,328,874,391	6,759,491,306	10,088,365,697
D. Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	\$4,182,212,020	\$11,097,644,512	\$15,279,856,532

\* Based on 3% mandatory member contributions.

**NEW PLAN BALANCE SHEET**  
**SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS**  
**JUNE 30, 2003**

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**PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES**

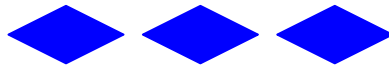
	<b>Annuities</b>	<b>Pensions</b>	<b>Total</b>
A. Funding value of system assets			
1. Net assets from Fund financial statements	\$368,535,931	\$ 407,024,588	\$ 775,560,519
2. Funding value adjustment	23,878,719	26,372,534	50,251,253
3. Funding value of assets	392,414,650	433,397,122	825,811,772
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,003,544,712	1,003,544,712
2. For unfunded actuarial accrued liability	1,160,414	565,500,430	566,660,844
3. Total	1,160,414	1,569,045,142	1,570,205,556
C. Present value of expected future member contributions*	492,432,305	0	492,432,305
D. Total Present and Future Resources	\$886,007,369	\$2,002,442,264	\$2,888,449,633

**ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE  
BENEFIT PAYMENTS AND RESERVES**

	<b>Annuities</b>	<b>Pensions</b>	<b>Total</b>
A. To retired members and beneficiaries			
1. Annual benefits	\$ 12,019,058	\$ 95,665,053	\$ 107,684,111
2. Reserve	0	0	0
3. Totals	12,019,058	95,665,053	107,684,111
B. To vested terminated members	39,364,721	15,342,227	54,706,948
C. To present active members			
1. Allocated to service rendered prior to valuation date	342,191,285	887,890,272	1,230,081,557
2. Allocated to service likely to be rendered after valuation date*	492,432,305	1,003,544,712	1,495,977,017
3. Total	834,623,590	1,891,434,984	2,726,058,574
D. Total Actuarial Present Value of Expected Future Benefit Payments	\$886,007,369	\$2,002,442,264	\$2,888,449,633

\* Based on 3% mandatory member contributions.

# INVESTMENTS



**ANNUITY SAVINGS ACCOUNT INVESTMENT OPTION RATES OF RETURN**

FOR THE FISCAL YEAR ENDING JUNE 30

	2004	2003	2002	2001	2000	1999*
S&P500 Index Fund	18.99%	0.31%	-17.96%	-14.71%	7.21%	36.37%
Small Cap Equity Fund	29.28%	-1.33%	-4.46%	7.58%	38.65%	34.66%
International Fund	29.58%	-7.15%	-11.98%	-24.13%	26.27%	29.74%
Bond Fund	2.15%	13.85%	5.54%	11.08%	5.99%	1.04%
Guaranteed Fund	6.75%	7.00%	7.50%	7.75%	7.75%	8.00%

\*Results for S&amp;P500 Index, Small Cap Equity and International are for 10/1/98 to 6/30/99.

**RATES OF RETURN FOR EMPLOYER INVESTMENTS**

FOR THE FISCAL YEAR ENDING JUNE 30

	2004	2003	2002	2001	2000	1999*
Large Cap Equities	19.07%	0.76%	-17.35%	-13.91%	6.74%	30.03%
Mid Cap Equities	27.65%	-5.10%	-8.60%	1.87%	29.31%	0.00%
Small Cap Equities	30.32%	-0.76%	-4.26%	7.87%	39.56%	35.26%
International Equities	26.80%	-8.23%	-11.72%	-24.38%	23.39%	29.15%
Fixed Income	1.80%	12.17%	6.02%	11.23%	4.83%	3.07%
COMPOSIT RETURN	11.82%	6.17%	-2.60%	2.08%	10.05%	12.35%

\*Results for S&amp;P500 Index, Small Cap Equity and International are for 10/1/98 to 6/30/99.

**EMPLOYER ASSET ALLOCATION**

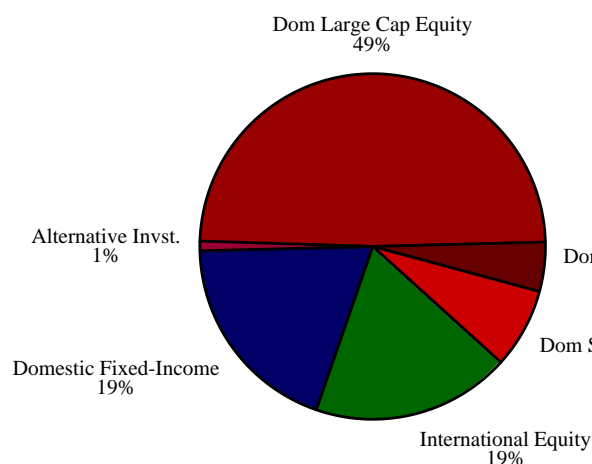
FOR THE FISCAL YEAR ENDING JUNE 30

	2004	2003	2002	2001	2000	1999
Large Cap Equities	49.2%	30.8%	26.6%	23%	28%	28%
Mid Cap Equities	4.6%	4.0%	5.9%	5%	6%	0%
Small Cap Equities	7.5%	8.1%	4.5%	6%	6%	5%
International Equities	18.6%	13.9%	16.7%	8%	8%	5%
Alternative Investments	0.9%	0.5%	0.1%	0%	0%	0%
Real Estate	0%	0%	0%	0%	0%	0%
Absolute Return	0%	0%	0%	0%	0%	0%
Fixed Income	19.3%	42.7%	46.3%	57%	52%	62%
TOTAL	100.0%	100.0%	100.0%	100%	100%	100%

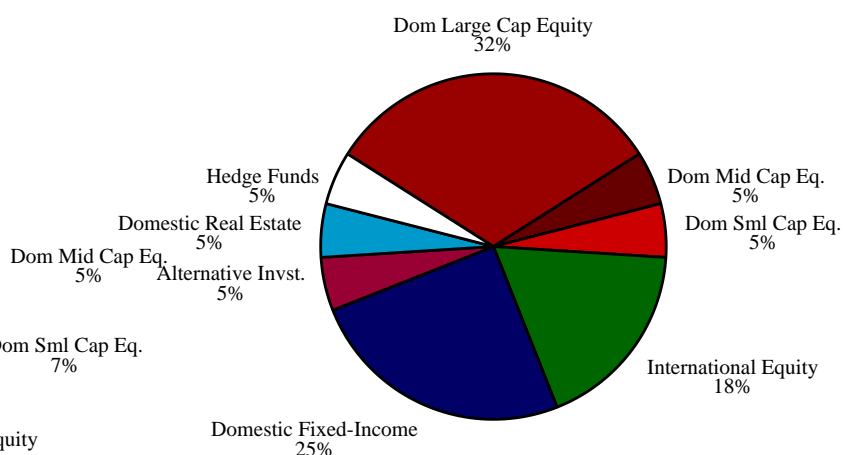
## Actual vs Target Asset Allocation

The top left chart shows the Fund's asset allocation as of June 30, 2004. The top right chart shows the Fund's target asset allocation as outlined in the investment policy statement. The bottom chart ranks the Fund's asset allocation and the target allocation versus the CAI Public Fund Sponsor Database.

### Actual Asset Allocation

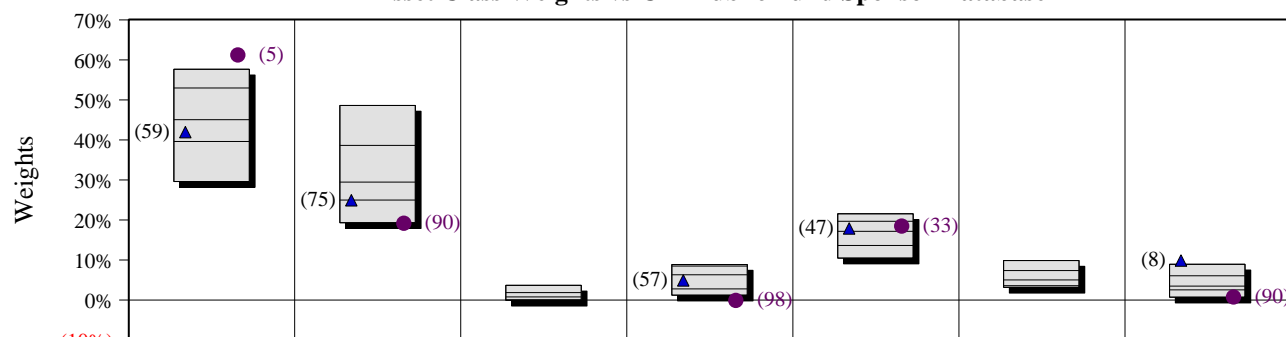


### Target Asset Allocation



Asset Class	\$000s Actual	Percent Actual	Percent Target	Percent Difference	\$000s Difference
Dom Large Cap Equity	1,838,076	49.2%	32.0%	17.2%	641,856
Dom Mid Cap Eq.	172,901	4.6%	5.0%	(0.4%)	(14,008)
Dom Sml Cap Eq.	279,532	7.5%	5.0%	2.5%	92,623
International Equity	694,573	18.6%	18.0%	0.6%	21,699
Domestic Fixed-Income	720,141	19.3%	25.0%	(5.7%)	(214,406)
Alternative Invst.	32,965	0.9%	5.0%	(4.1%)	(153,944)
Domestic Real Estate	0	0.0%	5.0%	(5.0%)	(186,909)
Hedge Funds	0	0.0%	5.0%	(5.0%)	(186,909)
Total	3,738,188	100.0%	100.0%		

### Asset Class Weights vs CAI Public Fund Sponsor Database



10th Percentile	57.70	48.68	3.77	8.96	21.66	9.98	9.05
25th Percentile	53.02	38.70	1.95	8.58	19.78	7.49	6.18
Median	45.10	29.53	0.87	6.40	17.27	5.14	3.60
75th Percentile	39.66	25.05	0.16	2.88	13.74	3.70	2.66
90th Percentile	29.66	19.39	0.03	1.30	10.58	3.30	0.83

**Fund** ● 61.27 19.26 - 0.00 18.58 - 0.88

**Target** ▲ 42.00 25.00 - 5.00 18.00 - 10.00

% Group Invested 98.77% 98.77% 62.03% 46.84% 86.08% 25.32% 39.24%

\* Current Quarter Target = 32.0% S&P 500, 25.0% L/B Agg, 18.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Dow Jones Wilshire RESI, 5.0% Post Venture Cap Idx and 5.0% 90 Day T-Bill + 5 %.

### Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2004, with the distribution as of March 31, 2004.

#### Asset Distribution Across Investment Managers

	June 30, 2004		March 31, 2004	
	Market Value	Percent	Market Value	Percent
<b>Employer Assets</b>	<b>\$3,738,187,988</b>	<b>55.81%</b>	<b>\$3,848,949,882</b>	<b>57.01%</b>
Domestic Large Cap Equity	1,838,075,716	27.44%	1,338,039,151	19.82%
Domestic Mid Cap Equity	172,901,196	2.58%	174,295,026	2.58%
Domestic Small Cap Equity	279,532,002	4.17%	278,868,721	4.13%
International Equity	694,572,754	10.37%	592,629,403	8.78%
Domestic Fixed-Income	720,141,416	10.75%	1,437,594,792	21.29%
Alternative Investment	32,964,904	0.49%	27,522,789	0.41%
<b>Employee Assets</b>	<b>\$2,960,232,787</b>	<b>44.19%</b>	<b>\$2,902,954,314</b>	<b>42.99%</b>
Domestic Large Cap Equity	592,849,830	8.85%	581,302,346	8.61%
Domestic Small Cap Equity	352,281,829	5.26%	347,984,913	5.15%
International Equity	92,423,483	1.38%	90,716,047	1.34%
Domestic Fixed-Income	1,922,677,645	28.70%	1,882,951,008	27.89%
<b>Total Fund</b>	<b>\$6,698,420,775</b>	<b>100.0%</b>	<b>\$6,751,904,196</b>	<b>100.0%</b>



## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2004, with the distribution as of June 30, 2003.

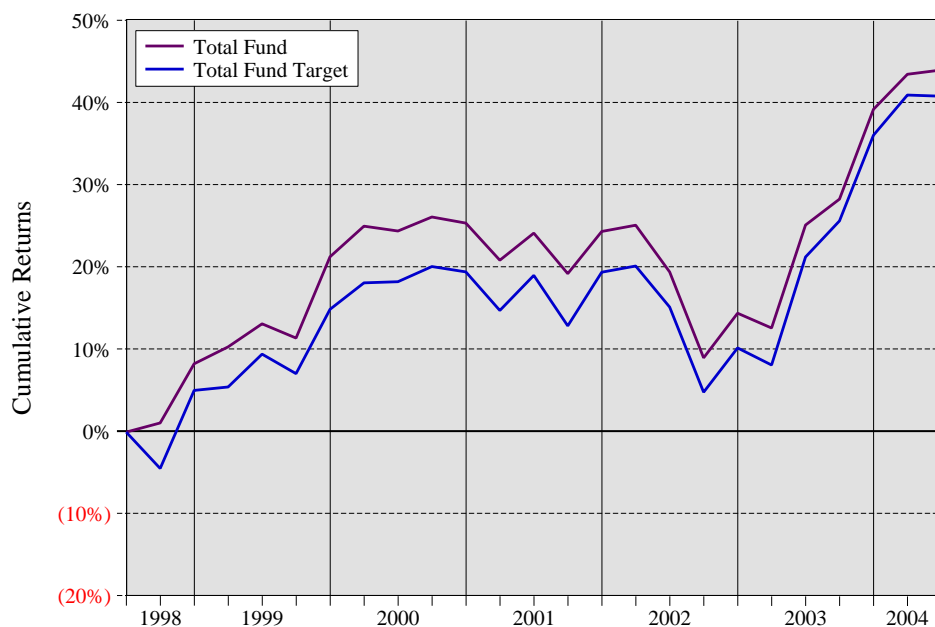
### Asset Distribution Across Investment Managers

	June 30, 2004		June 30, 2003	
	Market Value	Percent	Market Value	Percent
<b>Domestic Equity</b>	<b>\$2,756,269,585</b>	<b>41.15%</b>	<b>\$2,219,570,888</b>	<b>36.44%</b>
<b>Large Cap Equity</b>	<b>\$1,951,554,558</b>	<b>29.13%</b>	<b>\$1,547,084,348</b>	<b>25.40%</b>
<b>Passive</b>				
BGI (Equity Index)	774,645,591	11.56%	727,878,123	11.95%
Rhumblin	563,413,411	8.41%	301,810,358	4.96%
<b>Enhanced</b>				
PIMCO	353,449,687	5.28%	297,187,870	4.88%
<b>Growth</b>				
Dresdner	38,127,796	0.57%	33,731,284	0.55%
INTECH	52,278,550	0.78%	41,518,045	0.68%
H-S&Y	40,140,500	0.60%	35,224,069	0.58%
<b>Value</b>				
Earnest	25,982,559	0.39%	21,358,291	0.35%
GEAM	35,770,403	0.53%	30,917,559	0.51%
ICAP	30,876,840	0.46%	25,936,820	0.43%
PFR	36,869,221	0.55%	31,521,929	0.52%
<b>Mid Cap Equity</b>	<b>\$172,901,196</b>	<b>2.58%</b>	<b>\$135,906,227</b>	<b>2.23%</b>
<b>Core</b>				
Franklin Associates	172,901,193	2.58%	84,604,439	1.39%
<b>Growth</b>				
Putnam Investments	3	0.00%	51,301,788	0.84%
<b>Small Cap Equity</b>	<b>\$631,813,831</b>	<b>9.43%</b>	<b>\$536,580,313</b>	<b>8.81%</b>
<b>Growth</b>				
Aeltus Capital Management	173,958,886	2.60%	136,559,442	2.24%
TCW Group	85,999,764	1.28%	66,372,956	1.09%
<b>Value</b>				
Ariel Capital Management	213,306,190	3.18%	187,463,607	3.08%
Brandywine Capital Mgmt	158,548,991	2.37%	146,184,308	2.40%
<b>International Equity</b>	<b>\$786,996,237</b>	<b>11.75%</b>	<b>\$528,640,179</b>	<b>8.68%</b>
Alliance Capital Mgmt	563,599,549	8.41%	183,780,120	3.02%
Bank of Ireland	223,396,688	3.34%	179,260,313	2.94%
Dresdner RCM Global	-	-	165,599,746	2.72%
<b>Domestic Fixed-Income</b>	<b>\$2,642,819,061</b>	<b>39.45%</b>	<b>\$3,324,941,925</b>	<b>54.59%</b>
Alliance Capital Mgmt	1,214,408,080	18.13%	1,590,212,385	26.11%
Reams Asset Management	1,203,763,663	17.97%	1,564,713,830	25.69%
Taplin, Canida & Habacht	219,047,067	3.27%	68,251,508	1.12%
Cash Flow Account	5,600,251	0.08%	101,764,202	1.67%
<b>Alternative Investment</b>	<b>\$32,964,904</b>	<b>0.49%</b>	<b>\$17,625,339</b>	<b>0.29%</b>
Portfolio Advisors	32,964,904	0.49%	17,625,339	0.29%
<b>Total Fund</b>	<b>\$6,698,420,775</b>	<b>100.0%</b>	<b>\$6,090,778,331</b>	<b>100.0%</b>

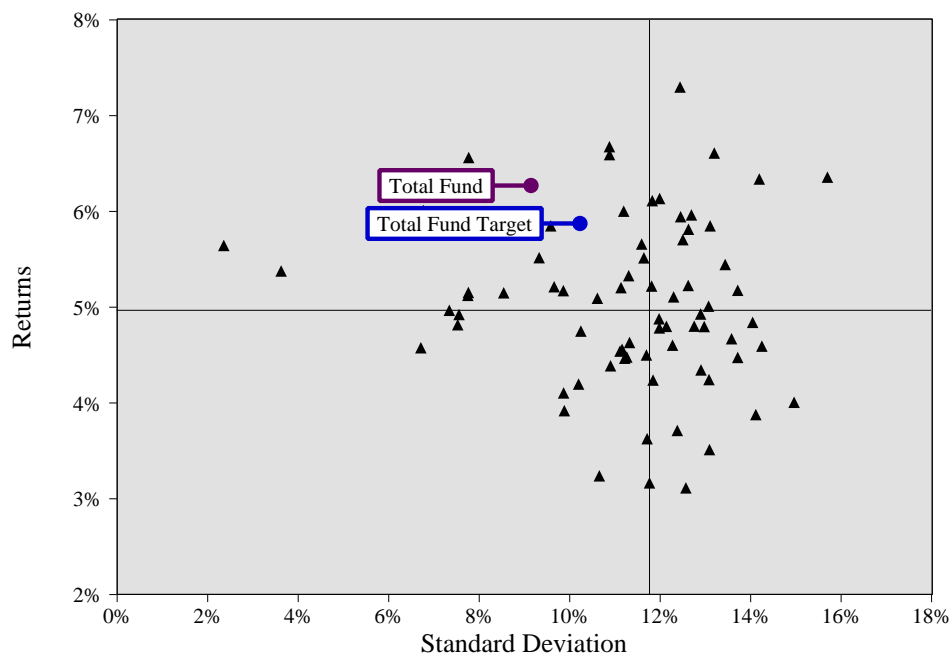
## Cumulative Performance Relative to Target

The first chart below illustrates the cumulative performance of the Total Fund relative to the cumulative performance of the Fund's Target Asset Mix. The Target Mix is assumed to be rebalanced each quarter with no transaction costs. The second chart below shows the return and the risk of the Total Fund and the Target Mix, contrasted with the returns and risks of the plans in the Public Plan Sponsor Database.

### Cumulative Returns Actual vs Target



### Six Year Annualized Risk vs Return



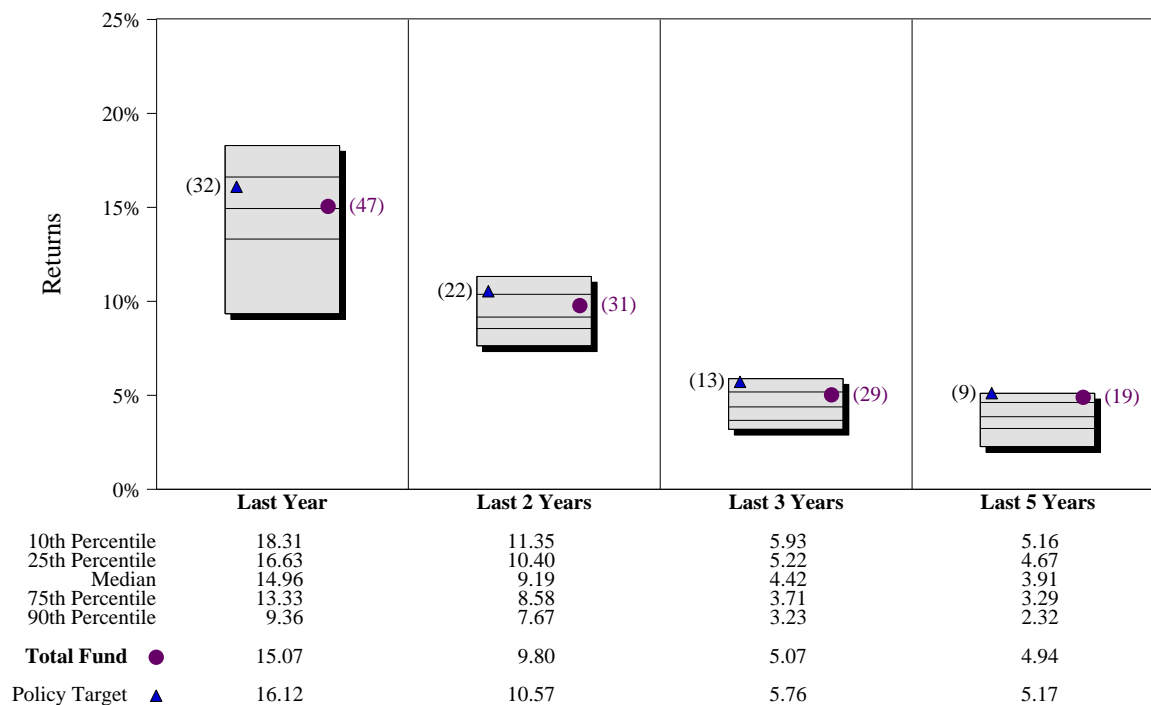
Triangles represent membership of the CAI Public Fund Sponsor Database

\* Current Quarter Target = 32.0% S&P 500, 25.0% L/B Agg, 18.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Dow Jones Wilshire RESI, 5.0% Post Venture Cap Idx and 5.0% 90 Day T-Bill + 5 %.

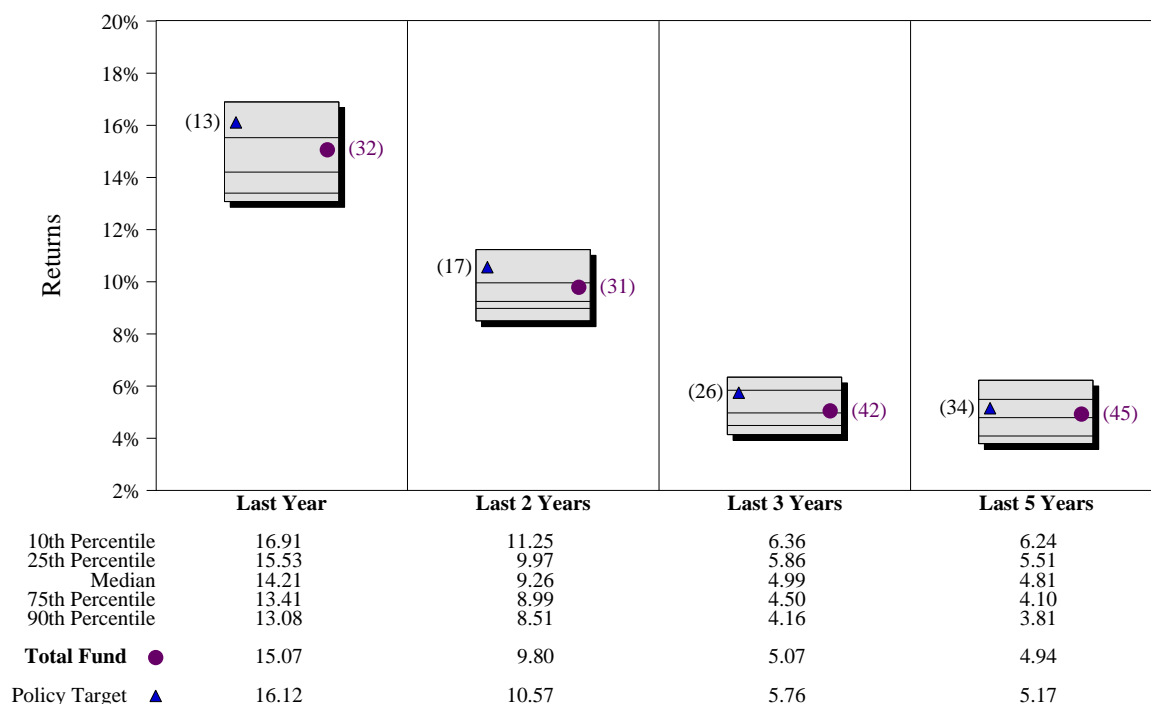
## Total Fund Ranking

The first two charts show the ranking of the Total Fund's performance relative to that of the CAI Public Fund Sponsor Database for periods ending June 30, 2004. The first chart is a standard unadjusted ranking. In the second chart, each fund in the database is adjusted to have the same historical asset allocation as that of the Total Fund.

### CAI Public Fund Sponsor Database



### Asset Allocation Adjusted Ranking



\* Current Quarter Target = 32.0% S&P 500, 25.0% L/B Agg, 18.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Dow Jones Wilshire RESI, 5.0% Post Venture Cap Idx and 5.0% 90 Day T-Bill + 5 %.

# TOTAL DOMESTIC EQUITY PERIOD ENDED JUNE 30, 2004



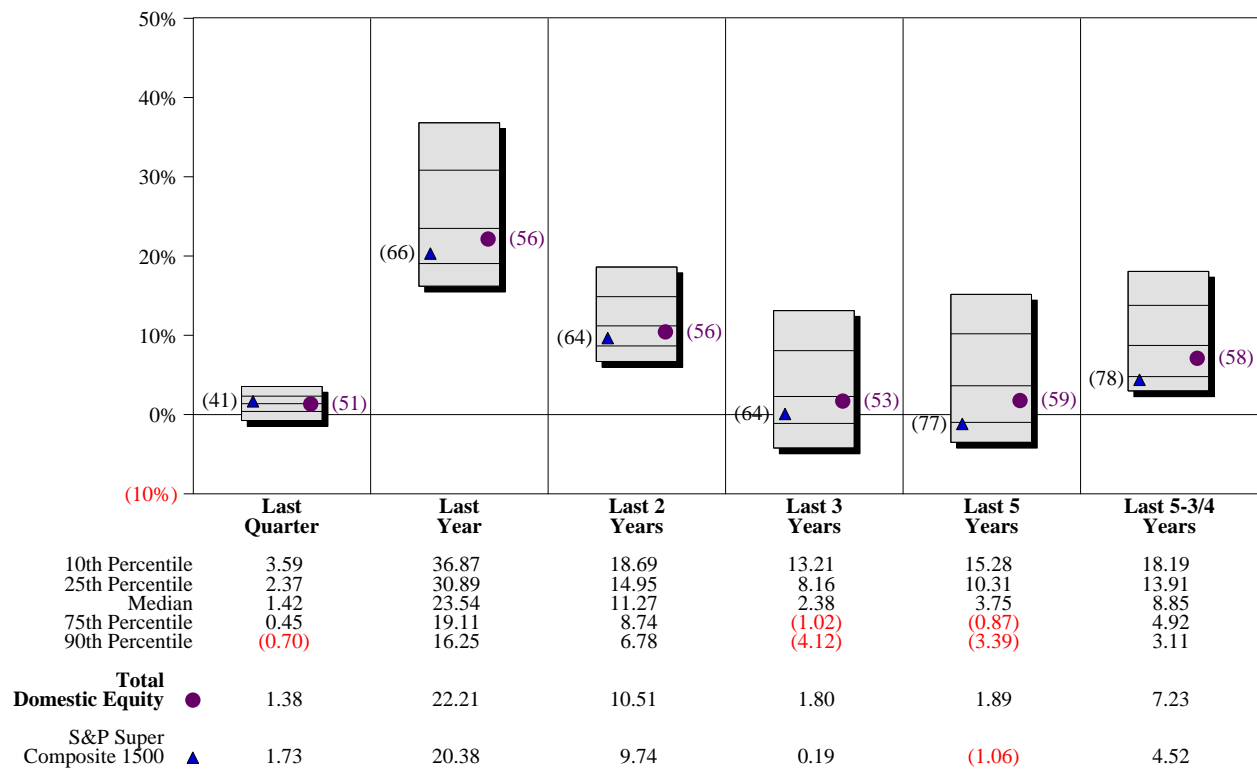
## Investment Philosophy

The Total Equity Database is a broad collection of actively managed separate account domestic equity products. Equity funds concentrate their investments in common stocks and convertible securities. Funds included maintain well-diversified portfolios.

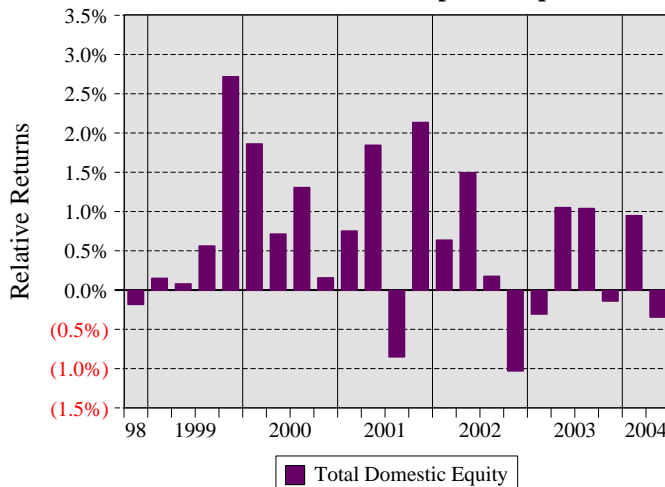
## Quarterly Summary and Highlights

- Total Domestic Equity's portfolio posted a 1.38% return for the quarter placing it in the 51st percentile of the CAI Total Domestic Equity Database group for the quarter and in the 56th percentile for the last year.
- Total Domestic Equity's portfolio underperformed the S&P Super Composite 1500 by 0.35% for the quarter and outperformed the S&P Super Composite 1500 for the year by 1.82%.

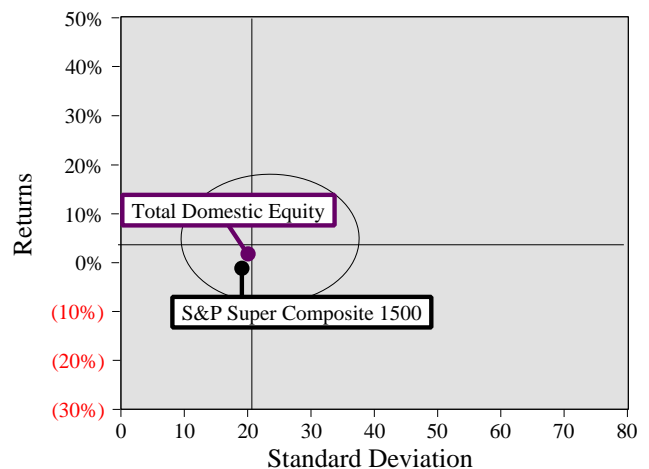
## Performance vs CAI Total Domestic Equity Database



## Relative Return vs S&P Super Composite 1500



## CAI Total Domestic Equity Database Annualized Five Year Risk vs Return



# TOTAL FIXED-INCOME PERIOD ENDING JUNE 30, 2004



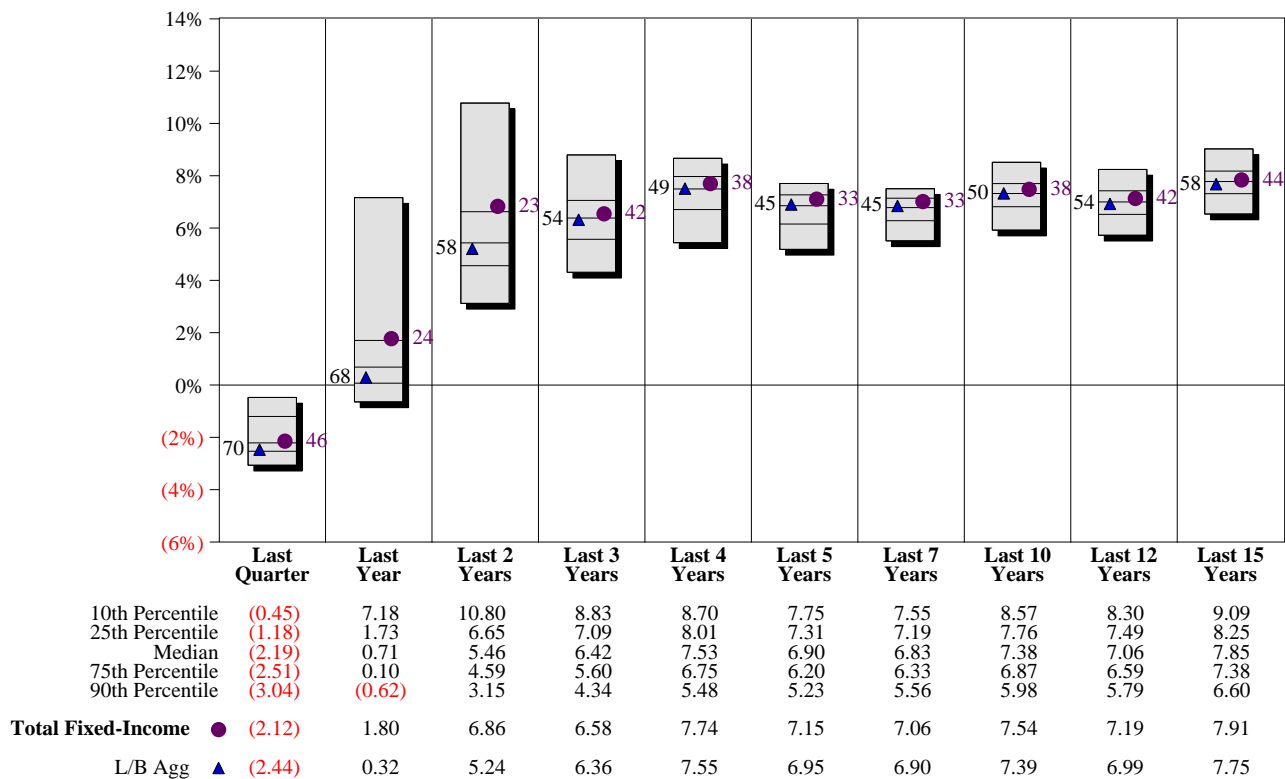
## Investment Philosophy

The Total Fixed-Income Database is a broad collection of separate account domestic fixed-income products. Fixed-Income funds concentrate their investments in bonds, preferred stocks, and money market securities.

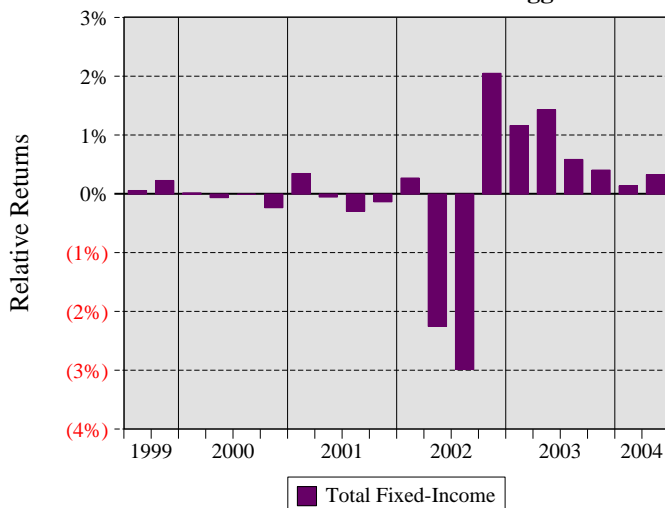
## Quarterly Summary and Highlights

- Total Fixed-Income's portfolio posted a (2.12)% return for the quarter placing it in the 46th percentile of the CAI Total Domestic Fixed-Inc Database group for the quarter and in the 24th percentile for the last year.
- Total Fixed-Income's portfolio outperformed the L/B Agg by 0.32% for the quarter and outperformed the L/B Agg for the year by 1.48%.

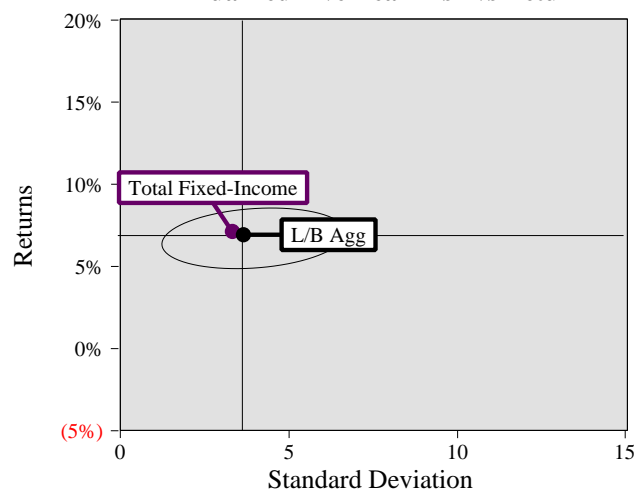
## Performance vs CAI Total Domestic Fixed-Inc Database



## Relative Return vs L/B Agg



## CAI Total Domestic Fixed-Inc Database Annualized Five Year Risk vs Return



## Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ending June 30, 2004. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the Fund's accounts for that asset class.

### Returns for Periods Ending June 30, 2004

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 3 Years	Last 4 Years	Last 6 Years
<b>Domestic Equity</b>	<b>\$2,756,269,585</b>	<b>41.15%</b>	<b>1.38%</b>	<b>22.21%</b>	<b>1.80%</b>	<b>(1.06%)</b>	<b>-</b>
<b>Large Cap Equity</b>	<b>\$1,951,554,558</b>	<b>29.13%</b>	<b>1.72%</b>	<b>19.07%</b>	<b>(0.28%)</b>	<b>(4.15%)</b>	<b>-</b>
<b>Passive</b>	<b>\$1,338,059,002</b>	<b>19.98%</b>	<b>1.71%</b>	<b>19.06%</b>	<b>(0.65%)</b>	<b>-</b>	<b>-</b>
Barclays Global Investors	774,645,591	11.56%	1.71%	19.01%	(0.68%)	(4.42%)	1.58%
Rhumblin	563,413,411	8.41%	1.72%	19.15%	(0.55%)	(4.14%)	0.94%
<b>Enhanced</b>	<b>\$353,449,687</b>	<b>5.28%</b>	<b>1.15%</b>	<b>19.32%</b>	<b>0.22%</b>	<b>-</b>	<b>-</b>
PIMCO	353,449,687	5.28%	1.15%	19.32%	0.67%	(3.04%)	2.57%
Standard & Poor's 500	-	-	1.72%	19.11%	(0.70%)	(4.43%)	1.57%
<b>Growth</b>	<b>\$130,546,846</b>	<b>1.95%</b>	<b>3.06%</b>	<b>18.81%</b>	<b>(1.11%)</b>	<b>-</b>	<b>-</b>
Dresdner	38,127,796	0.57%	2.20%	13.67%	(5.55%)	-	-
INTECH	52,278,550	0.78%	4.62%	26.53%	7.45%	-	-
H-S&Y	40,140,500	0.60%	1.90%	14.63%	(4.28%)	-	-
Russell 1000 Growth	-	-	1.94%	17.88%	(3.74%)	(13.14%)	(1.55%)
S&P 500 Growth	-	-	2.69%	16.02%	(1.09%)	(10.08%)	(0.11%)
<b>Value</b>	<b>\$129,499,023</b>	<b>1.93%</b>	<b>1.96%</b>	<b>18.71%</b>	<b>2.30%</b>	<b>-</b>	<b>-</b>
Earnest	25,982,559	0.39%	2.04%	22.36%	1.11%	-	-
GEAM	35,770,403	0.53%	1.15%	16.27%	0.17%	-	-
ICAP	30,876,840	0.46%	0.51%	19.78%	0.87%	-	-
PFR	36,869,221	0.55%	3.97%	17.76%	6.81%	-	-
Russell 1000 Value	-	-	0.88%	21.13%	2.97%	4.76%	4.15%
S&P 500 Value	-	-	0.80%	22.26%	(0.57%)	1.49%	2.70%
<b>Mid Cap Equity</b>	<b>\$172,901,196</b>	<b>2.58%</b>	<b>(0.74%)</b>	<b>27.65%</b>	<b>3.45%</b>	<b>3.48%</b>	<b>-</b>
Franklin Portfolio Assoc.	172,901,193	2.58%	(0.74%)	29.78%	9.48%	9.08%	12.11%
S&P 400 Mid Cap	-	-	0.97%	27.98%	6.58%	7.15%	10.36%
<b>Small Cap Equity</b>	<b>\$631,813,831</b>	<b>9.43%</b>	<b>0.95%</b>	<b>30.32%</b>	<b>7.38%</b>	<b>6.30%</b>	<b>-</b>
<b>Growth</b>	<b>\$259,958,650</b>	<b>3.88%</b>	<b>(1.73%)</b>	<b>29.05%</b>	<b>(4.03%)</b>	<b>(11.68%)</b>	<b>-</b>
Aeltus Capital Management	173,958,886	2.60%	(3.09%)	28.27%	2.01%	(3.37%)	3.09%
TCW Group	85,999,764	1.28%	1.14%	30.65%	(10.63%)	(19.73%)	(1.50%)
Russell 2000 Growth	-	-	0.09%	31.55%	(0.22%)	(6.58%)	0.96%
<b>Value</b>	<b>\$371,855,181</b>	<b>5.55%</b>	<b>2.91%</b>	<b>31.46%</b>	<b>14.41%</b>	<b>20.20%</b>	<b>-</b>
Ariel Capital Management	213,306,190	3.18%	5.07%	32.02%	14.08%	17.63%	11.99%
Brandywine Asset Management	158,548,991	2.37%	0.15%	30.60%	14.95%	23.02%	-
Russell 2000 Value	-	-	0.85%	35.17%	12.15%	16.55%	9.50%
<b>International Equity</b>	<b>\$786,996,237</b>	<b>11.75%</b>	<b>0.29%</b>	<b>26.80%</b>	<b>0.90%</b>	<b>(6.13%)</b>	<b>-</b>
Alliance Capital Management	563,599,549	8.41%	0.44%	32.26%	4.50%	(3.49%)	-
Bank of Ireland	223,396,688	3.34%	(0.02%)	25.02%	0.67%	(4.80%)	-
MSCI EAFE Index	-	-	0.22%	32.37%	3.87%	(3.81%)	1.28%
<b>Alternative Investment</b>	<b>\$32,964,904</b>	<b>0.49%</b>	<b>3.17%</b>	<b>7.28%</b>	<b>-</b>	<b>-</b>	<b>-</b>
Portfolio Advisors	32,964,904	0.49%	3.17%	7.28%	-	-	-
Post Venture Cap Index	-	-	0.04%	32.37%	(4.05%)	(17.77%)	(0.76%)
<b>Composite Fund</b>	<b>\$6,698,420,775</b>	<b>100.00%</b>	<b>(0.46%)</b>	<b>11.82%</b>	<b>4.96%</b>	<b>3.91%</b>	<b>6.25%</b>

### Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ending June 30, 2004. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the Fund's accounts for that asset class.

#### Returns for Periods Ending June 30, 2004

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years
<b>Domestic Fixed-Income</b>	<b>\$2,642,819,061</b>	<b>39.45%</b>	<b>(2.12%)</b>	<b>1.80%</b>	<b>6.86%</b>	<b>6.58%</b>	<b>7.74%</b>
Alliance Capital Mgmt.	1,214,408,080	18.13%	(2.27%)	1.22%	7.23%	7.11%	8.25%
Alliance Capital Index	-	-	(2.44%)	0.32%	5.24%	6.36%	7.55%
Reams Asset Management	1,203,763,663	17.97%	(2.06%)	2.24%	6.63%	5.70%	7.29%
Taplin, Canida & Habacht	219,047,067	3.27%	(1.73%)	3.44%	8.83%	8.51%	8.80%
Lehman Brothers Agg.	-	-	(2.44%)	0.32%	5.24%	6.36%	7.55%
Cash Flow Account	5,600,251	0.08%	2.30%	5.76%	4.24%	3.54%	4.07%
Treasury Bills	-	-	0.24%	0.98%	1.25%	1.71%	2.74%
<b>Composite Fund</b>	<b>\$6,698,420,775</b>	<b>100.00%</b>	<b>(0.46%)</b>	<b>11.82%</b>	<b>8.96%</b>	<b>4.96%</b>	<b>3.91%</b>
Standard & Poor's 500	-	-	1.72%	19.11%	9.28%	(0.70%)	(4.43%)
Domestic Equity Database	-	-	1.40%	25.24%	12.14%	3.18%	1.13%
Domestic Fixed Database	-	-	(1.95%)	1.83%	6.33%	6.55%	7.40%

### Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ending June 30, 2004. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the Fund's accounts for that asset class.

#### Returns for Periods Ending June 30, 2004

	<b>Market Value \$(Dollars)</b>	<b>Ending Weight</b>	<b>Last 5 Years</b>	<b>Last 7 Years</b>	<b>Last 10 Years</b>	<b>Last 12 Years</b>	<b>Last 15 Years</b>
<b>Domestic Fixed-Income</b>	<b>\$2,642,819,061</b>	<b>39.45%</b>	<b>7.15%</b>	<b>7.06%</b>	<b>7.54%</b>	<b>7.19%</b>	<b>7.91%</b>
Alliance Capital Mgmt	1,214,408,080	18.13%	7.41%	7.63%	8.33%	8.13%	8.90%
Alliance Cap Index	-	-	6.95%	6.90%	7.39%	6.99%	7.75%
Reams Asset Mgmt	1,203,763,663	17.97%	7.18%	7.35%	7.90%	-	-
Taplin, Canida & Habacht	219,047,067	3.27%	7.46%	7.45%	7.73%	-	-
Lehman Brothers Aggregate	-	-	6.95%	6.90%	7.39%	6.99%	7.75%
Cash Flow Account	5,600,251	0.08%	4.16%	4.46%	4.86%	4.67%	5.37%
Treasury Bills	-	-	3.29%	3.81%	4.27%	4.10%	4.61%
<b>Composite Fund</b>	<b>\$6,698,420,775</b>	<b>100.00%</b>	<b>5.11%</b>	<b>6.88%</b>	<b>7.41%</b>	<b>7.09%</b>	<b>7.82%</b>
Lehman Brothers Aggregate	-	-	6.95%	6.90%	7.39%	6.99%	7.75%
Total Fixed-Income Database	-	-	6.79%	6.75%	7.29%	7.08%	7.79%
Core Bond Fixed-Inc. Style	-	-	7.00%	6.93%	7.44%	7.15%	7.88%



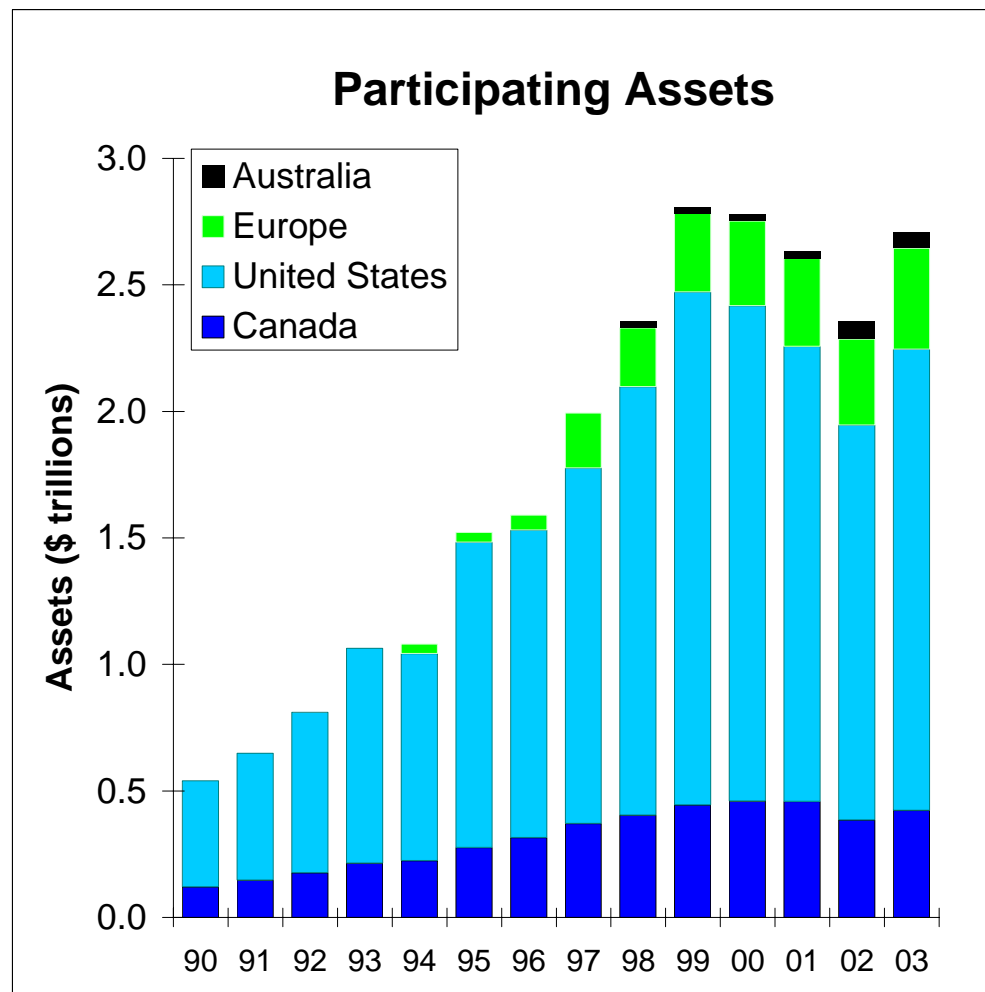
**Defined Benefit Investment  
Cost Effectiveness Analysis**

For the 5 years ending December 31, 2003

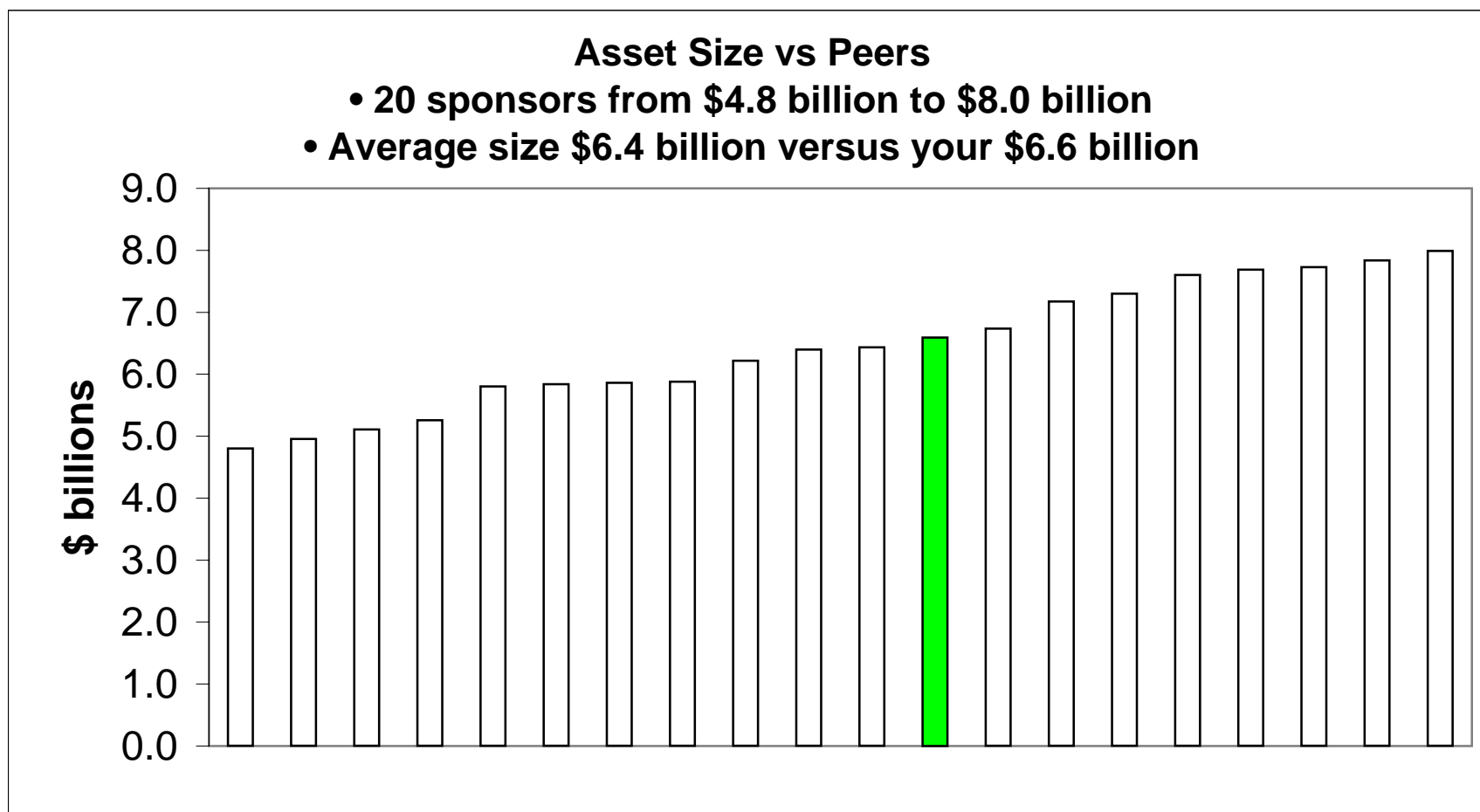
**Indiana State Teachers'  
Retirement Fund**

# This benchmarking report compares your cost and return performance to CEM's extensive pension performance database.

- 139 US pension funds participate. They represent 30% of U.S. defined benefit assets. The median US fund had assets of \$4.1 billion, while the average US fund had assets of \$13.1 billion. Total participating US assets were \$1.8 trillion.
- 89 Canadian funds participate representing 70% of Canadian defined benefit assets.
- 15 European funds participate with aggregate assets of €401 billion. Included are funds from The Netherlands, Norway and Ireland.
- 11 Australian funds participate with aggregate assets of A\$60 billion.
- The most meaningful comparisons for returns and value added are to the US universe.



**The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.**



In order to preserve client confidentiality, we do not disclose your peers' names in this document because of the Freedom of Information Act.

# What gets measured gets managed, so it is critical that you measure and compare the right things:

## 1. Policy Return

How did your policy asset mix decision compare to other funds?

## 2. Implementation Value Added

Are your implementation decisions (i.e., mostly active management) adding value?

## 3. Costs

Are your costs reasonable?  
Costs matter and can be managed.

## 4. Asset-Liability Mismatch Risk

Risk is caused by the mismatch between your assets and your liabilities. How large is your risk? Are you being paid sufficiently for the risk you are taking?

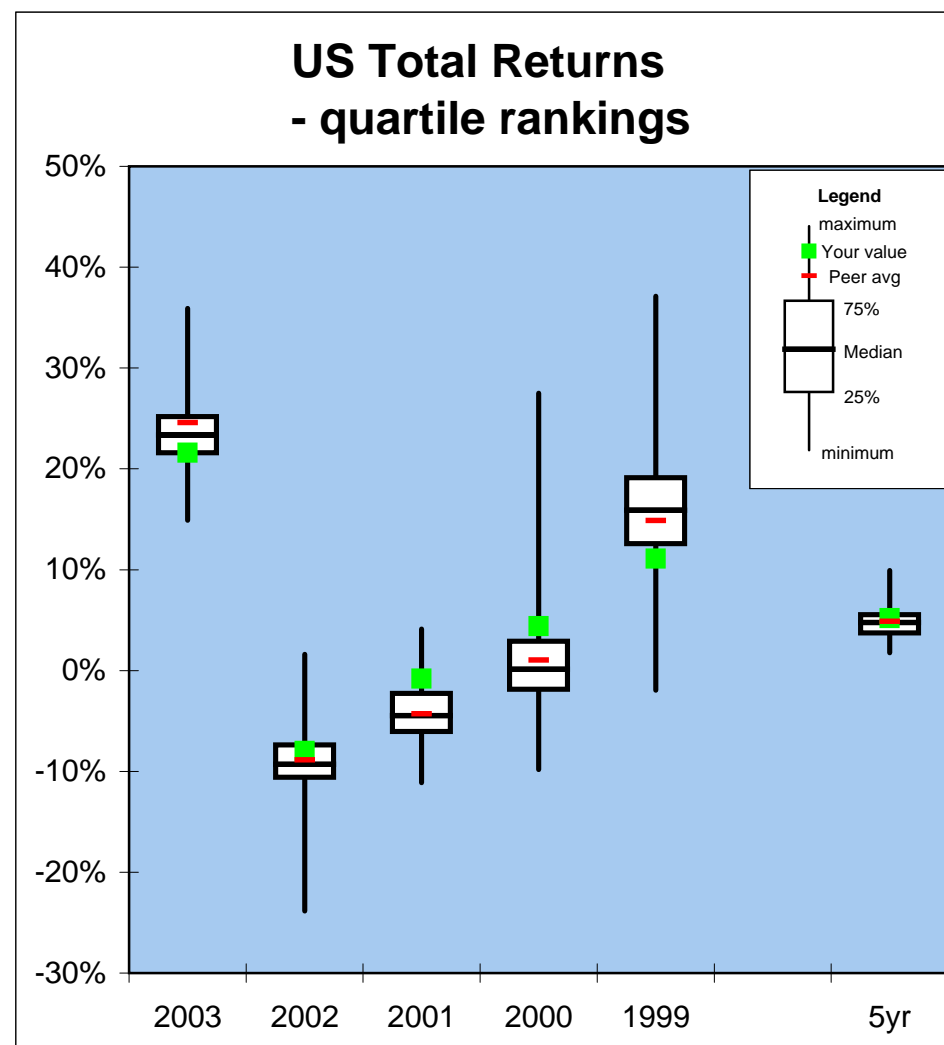
# Total Returns, by themselves, are the wrong thing to compare and focus on.

They do not tell you the reasons behind good or bad relative performance.

Therefore, we separate Total Return into its more meaningful components - Policy Return and Implementation Value Added.

Indiana STRF Employer Plan	Your 5-yr
Total Fund Return	5.18%
Policy Return	5.45%
Implementation Value Added	-0.27%

This approach enables you to understand the contribution from both policy asset mix decisions (which tend to be the Board's responsibility) and implementation decisions (which tend to be management's responsibility).



## 1. Policy Returns

**Policy Return is the component of your Total Return resulting from your policy asset mix decisions. Your 5 year policy return of 5.4% was in the top quartile of the US universe.**

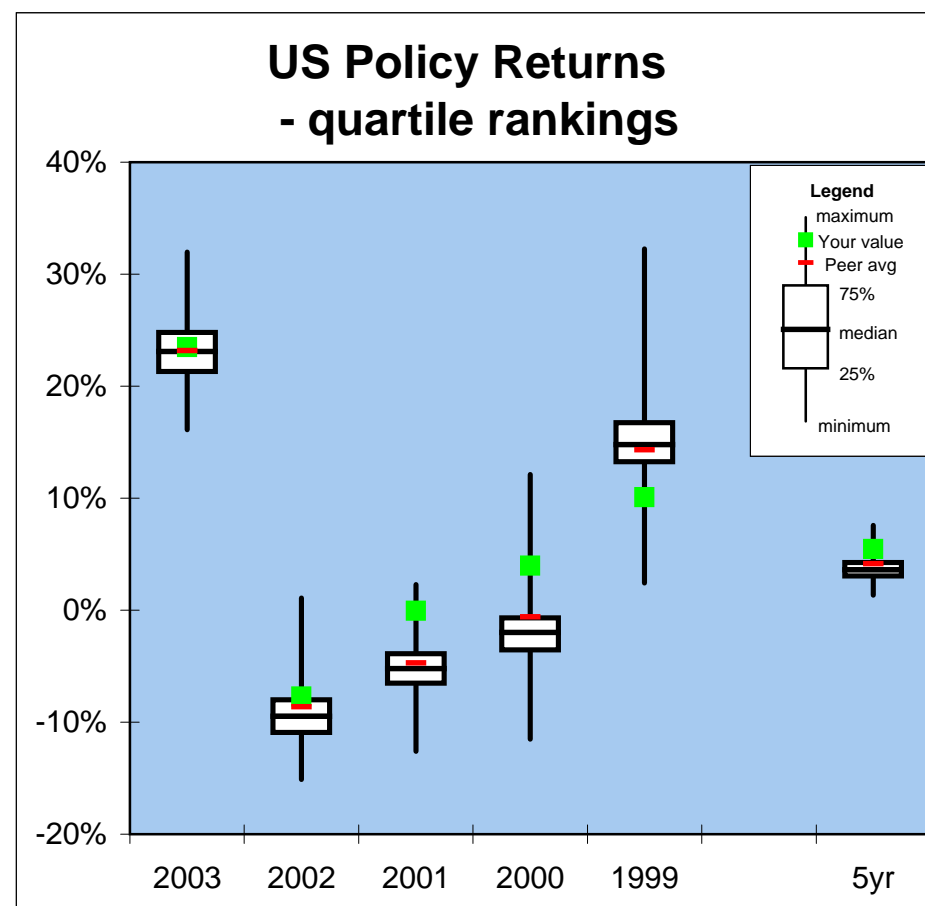
Your Policy Return is the return you could have earned passively by indexing your investments according to your investment policy asset mix.

Having a higher or lower relative Policy Return is not necessarily good or bad. This is because your policy return reflects your investment policy, which should reflect your:

- long term capital market expectations
- liabilities
- appetite for risk.

Each of these three factors is different across funds. Therefore, it is not surprising that Policy Returns vary significantly between funds.

Note: Your peer median 5 year Policy Return was 3.9%.



1. Why does your Policy Return differ from average?

## Your top quartile US 5 year Policy Return for the Employer Plan reflects the following differences between your policy asset mix and the US average.

- The positive impact of your policy's relative underweighting in one of the poorest performing asset classes of the past 5 years: Large Cap Stocks (your 5 year avg weight of 26% vs a US average of 41%).
- The positive impact of your policy's relative overweighting in one of the best performing asset classes of the past 5 years: Fixed Income (your 5 year avg weight of 45% vs a US average of 30%).
- The positive impact of your policy's relative overweighting in one of the best performing asset classes of the past 5 years: Real Estate/REITs (your 5 year avg weight of 6% vs a US average of 4%).

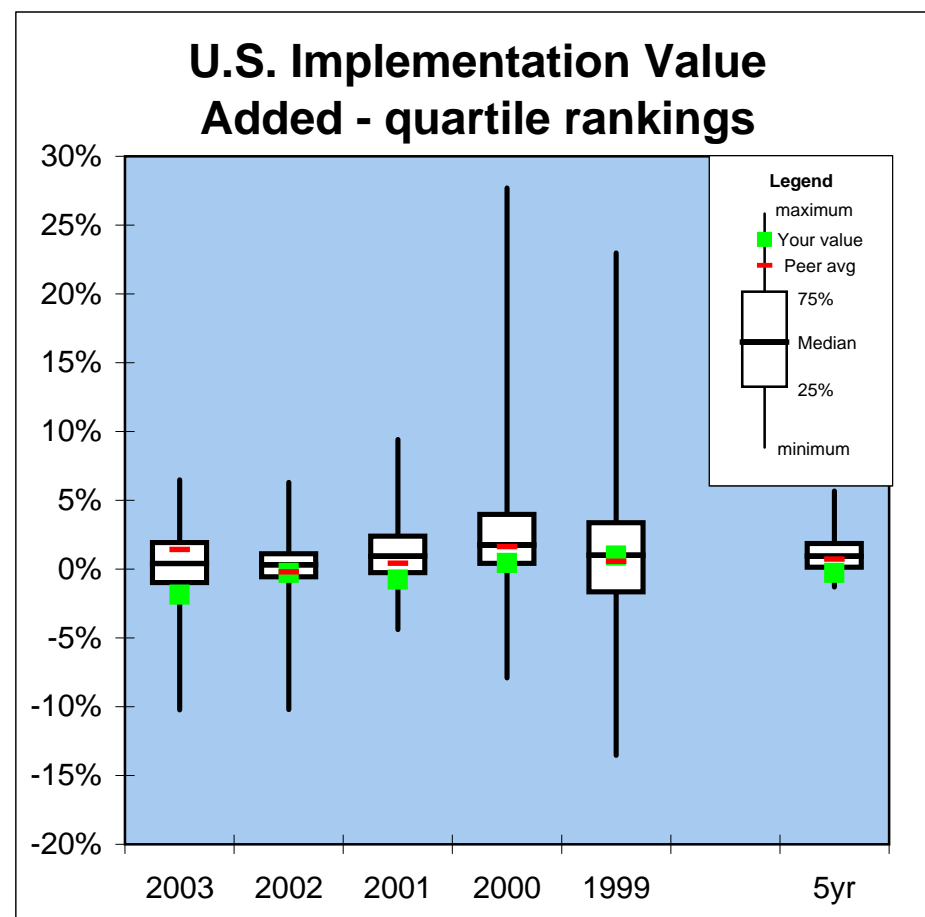
5-year Average Policy Asset Mix			
<b>Asset Class</b>	<b>Your Fund</b>	<b>Peer Avg</b>	<b>US Avg</b>
Domestic Stocks - Large Cap	26%	40%	41%
Domestic Stocks - Small Cap	9%	4%	5%
Foreign - Developed Stocks	12%	15%	15%
Foreign - Emerging Markets	0%	1%	1%
Fixed Income	45%	33%	30%
Inflation indexed bonds	0%	1%	0%
Cash	0%	0%	1%
Real Estate & REITs	6%	2%	4%
Private Equity & Hedge Funds	2%	3%	3%
Total	100%	100%	100%

## 2. Implementation Value Added

**Implementation Value Added is the component of your Total Return from active management. Your 5 year Implementation Value Added for your Employer Plan was -0.3%.**

- This compares to a 5 year US median of 0.9% and a peer median of 0.7%.
- Your value added from implementation decisions equals your total return minus your policy return.

Year	Actual Return	Policy Return	Value Added
2003	21.6%	23.5%	-1.9%
2002	-8.0%	-7.7%	-0.3%
2001	-0.8%	-0.1%	-0.8%
2000	4.4%	4.0%	0.5%
1999	11.1%	10.1%	1.0%
5-yr	5.2%	5.4%	<b>-0.3%</b>





**2. Implementation  
Value Added  
(In-category by Asset  
Class)**

## Your investment managers outperformed their benchmarks in all of your asset classes.

- Most significantly, your manager's performance against benchmarks was higher than your peers and the US average in Small Cap Domestic Stocks and lower than your peers and the US average in Foreign Developed Stocks.

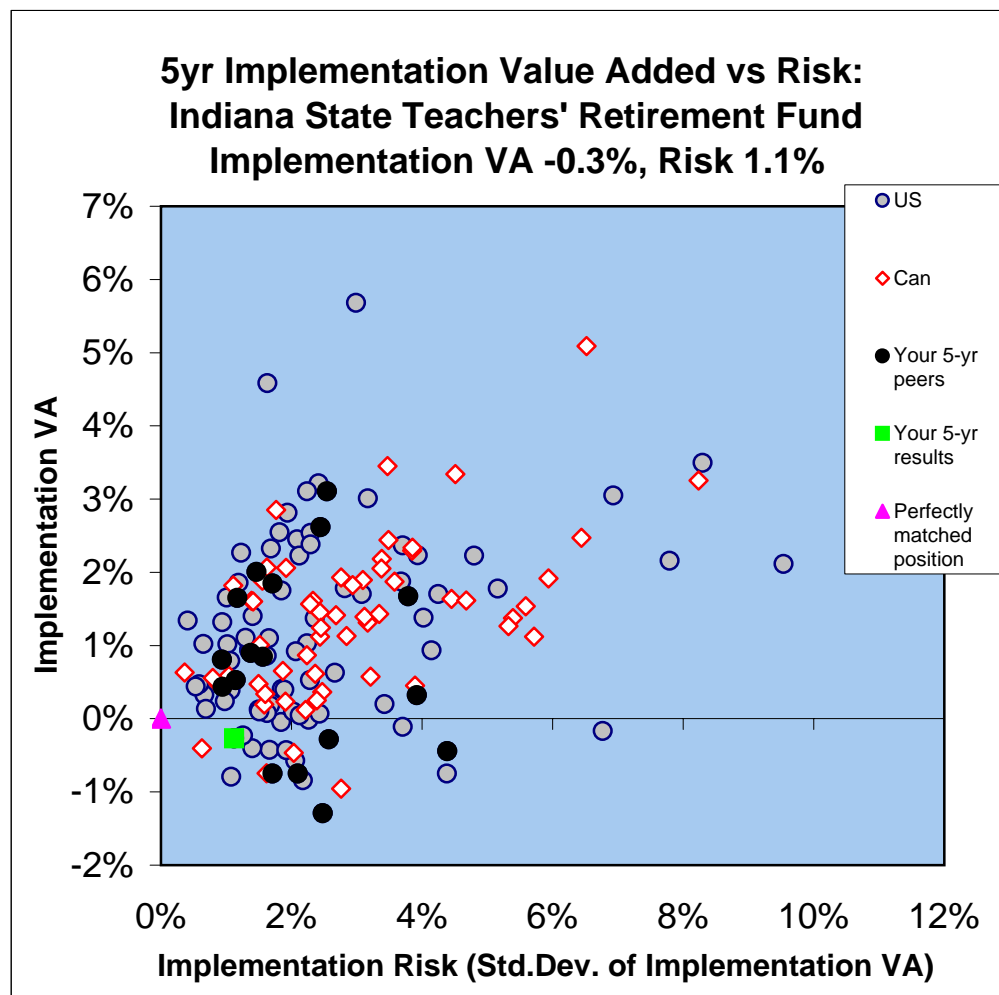
<b>5-year In-Category Value Added</b>			
<b><u>Asset Class</u></b>	<b><u>Your Fund</u></b>	<b><u>Peer Avg</u></b>	<b><u>US Avg</u></b>
Domestic Stocks - Large Cap	0.9%	1.0%	1.0%
Domestic Stocks - Small Cap	4.2%	2.4%	2.7%
Foreign - Developed Stocks	0.5%	2.9%	2.8%
Fixed Income	0.2%	0.6%	0.3%

## 2. Implementation Risk

**Your 5 year Implementation Risk of 1.1% was below the US median of 1.9%.**

"Implementation Risk" is the risk of active management. CEM defines Implementation Risk as the standard deviation of your Implementation Value Added.

There was a positive relationship between Implementation Risk and Value Added over the past 5 years. On average, funds that took more Implementation Risk earned more Implementation Value Added.



**3. Costs  
(Total)**

## Asset mix and implementation decisions impact costs. Your asset management costs (including Oversight) in 2003 were \$12.3 million or 20.3 basis points.

- CEM collects investment costs by major asset classes and 4 different implementation styles.
- Oversight, Custodial & Other cost includes all costs associated with the oversight and administration of the investment operation, regardless of how these costs are paid.
- Note that only Asset Management and Oversight costs are included. Costs pertaining to member servicing are specifically excluded.

<b>Your Investment Management Costs (\$000's)</b>				
	<b>Internal</b>		<b>External</b>	
	<b>Passive</b>	<b>Active</b>	<b>Passive</b>	<b>Active</b>
Domestic Equity - Large Cap			254	2,762
Domestic Equity - Small Cap				3,796
Foreign - Developed Equity			212	1,296
Foreign - Emerging Market				
Fixed Income - Domestic				2,723
Fixed Income - Foreign				
Fixed Income - High Yield				
REITs				
Real Estate				
Other Real Assets				
Hedge & Absolute return				
Fund of Fund VC & LBO (including underlying fees)				395
Venture Capital & LBO				
Other Private Equity				
Overlay Programs				
<b>Total Investment Management Costs</b>				18.9bp
				11,438
<b>Your Oversight, Custodial &amp; Other - asset related (\$000's)</b>				
Oversight of the Fund				484
Trustee & Custodial				100
Consulting and Performance Measurement				275
Audit				15
Other				
<b>Total Oversight, Custodial &amp; Other Costs</b>				1.4bp
				874
<b>Total Operating Costs in \$000's</b>				20.3bp
				12,312

### 3. Costs

- Are they high or low?

## Benchmark Cost analysis suggests that your fund was low cost.

To assess your cost performance, we start by calculating your benchmark cost. Your Benchmark Cost\* is an estimate of what your costs would be using your asset mix and the median cost that your peers pay for similar services.

Your Actual Cost of 20.3 bp was less than your Benchmark Cost of 26.4 bp. Thus, your fund's Excess Cost was -6.1 bp, suggesting that your fund was low cost.

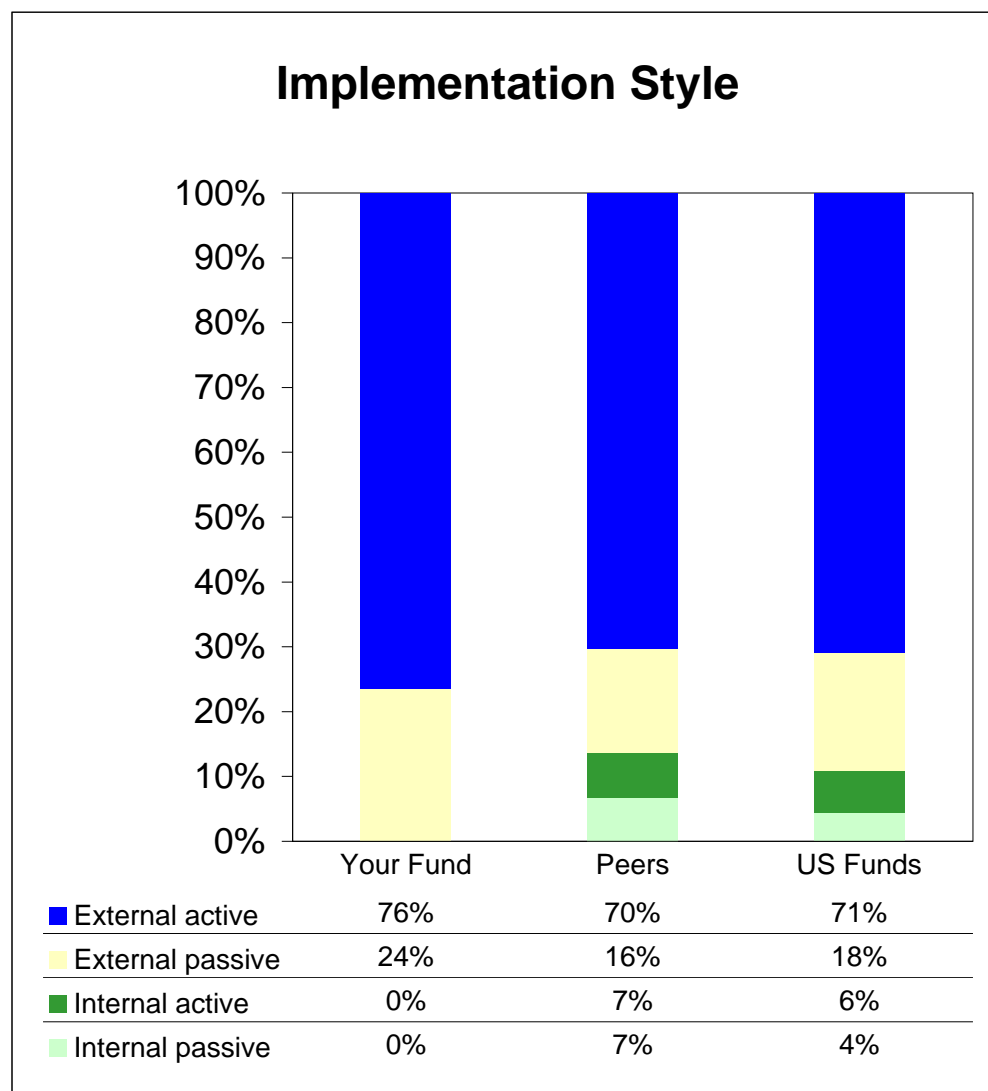
	in \$000's	basis points
<b>Your Fund's Actual Cost</b>	<b>\$12,312</b>	<b>20.3 bp</b>
<b>Your Fund's Benchmark Cost*</b>	<b><u>\$15,986</u></b>	<b><u>26.4 bp</u></b>
<b>Your Fund's Excess Cost</b>	<b><u>-\$3,674</u></b>	<b><u>-6.1 bp</u></b>

*\*Note: This is a change in methodology. In prior years your Benchmark Cost was derived using regression analysis. A peer median Benchmark Cost allows us to quantify your 'Excess Cost' and quantify the factors that impact this more precisely, as discussed in the following pages.*

### 3. Costs Is it Style?

**Your fund used more external active management than your peers (your 76% versus 70% for your peers).**

- External active management is significantly more expensive than internal management, or external passive management.
- We quantify the impact of more or less external active management by asset class on the following page.



### 3. Costs - Impact of Style

## Although your fund used more external active management, the impact on your cost was minimal.

- One reason why the impact was minimal was because one of the asset classes where you used more external active management was Fixed Income. The external active cost premium for this asset class was only 16.3 bp. In comparison, you used less external active management in Foreign Equity and Domestic Equity where the cost premiums were 33.2 bp and 29.0 bp respectively.

- Impact of differences in lower cost styles refers to impact caused by your allocation among internal passive, internal active and external passive management, in comparison with your peers.

Impact from differences in use of External Active management					
	Average Holdings \$M	External Active Holdings % of asset class		Cost Premium <sup>1</sup>	Dollar Impact \$000
		Your%	Peer Avg%		
Domestic Equity - Large Cap	\$1,649	31.7%	53.1%	29.0 bp	-1,024
Domestic Equity - Small Cap	\$683	100.0%	88.9%	63.2 bp	478
Foreign Equity	\$570	47.1%	86.1%	33.2 bp	-737
Domestic Fixed Income	\$3,137	100.0%	71.5%	16.2 bp	1,447
Venture Capital/LBO (fees pd)	\$17	0.0%	62.1%	0.0 bp	0
Fund of Funds		100.0%	37.9%	101.2 bp	104
<b>Total</b>	<b>\$6,054</b>	<b>76.4%</b>	<b>70.3%</b>		<b>\$267</b>
<b>External Active Impact in bps</b>					<b>0.4 bp</b>
Impact of differences in lower cost styles					-0.3 bp
<b>Total Style Impact</b>					<b>0.1 bp</b>

<sup>1</sup> External Active Cost Premium is the additional cost of external active management relative to the average of other lower cost implementation external passive.

- 'N/A' Indicates insufficient peer data to calculate external active cost premium. This is most often a result of insufficient peer 'lower cost' implementation style data.

**3. Costs -**  
Are you paying  
more for similar  
services?

## Your Oversight, Custodial & Other costs were all slightly lower than your peers.

<b>Oversight, Custodial &amp; Other Costs</b>				
	<b>Your 2003</b>		<b>Peer</b>	<b>Impact of the</b>
	<b>Avg Holdings in \$mils</b>	<b>Costs in bps</b>	<b>Median in bps</b>	<b>difference in \$000's</b>
Oversight	6,054	0.8 bp	1.1 bp	-178
Custodial/Trustee	6,054	0.2 bp	0.9 bp	-462
Consulting/Performance Measurement	6,054	0.5 bp	0.6 bp	-101
Audit	6,054	0.0 bp	0.1 bp	-41
Other	6,054	0.0 bp	0.2 bp	-127
<b>Total Impact in \$000's</b>				<b>-\$909</b>
<b>Total Impact in basis points</b>				<b>-1.5 bp</b>

**3. Costs -**  
**Are you paying more**  
**for similar services?**

**Your overall Externally Managed Investment cost was low relative to your peers. A large component of the cost savings was from your lower Domestic Fixed Income costs.**

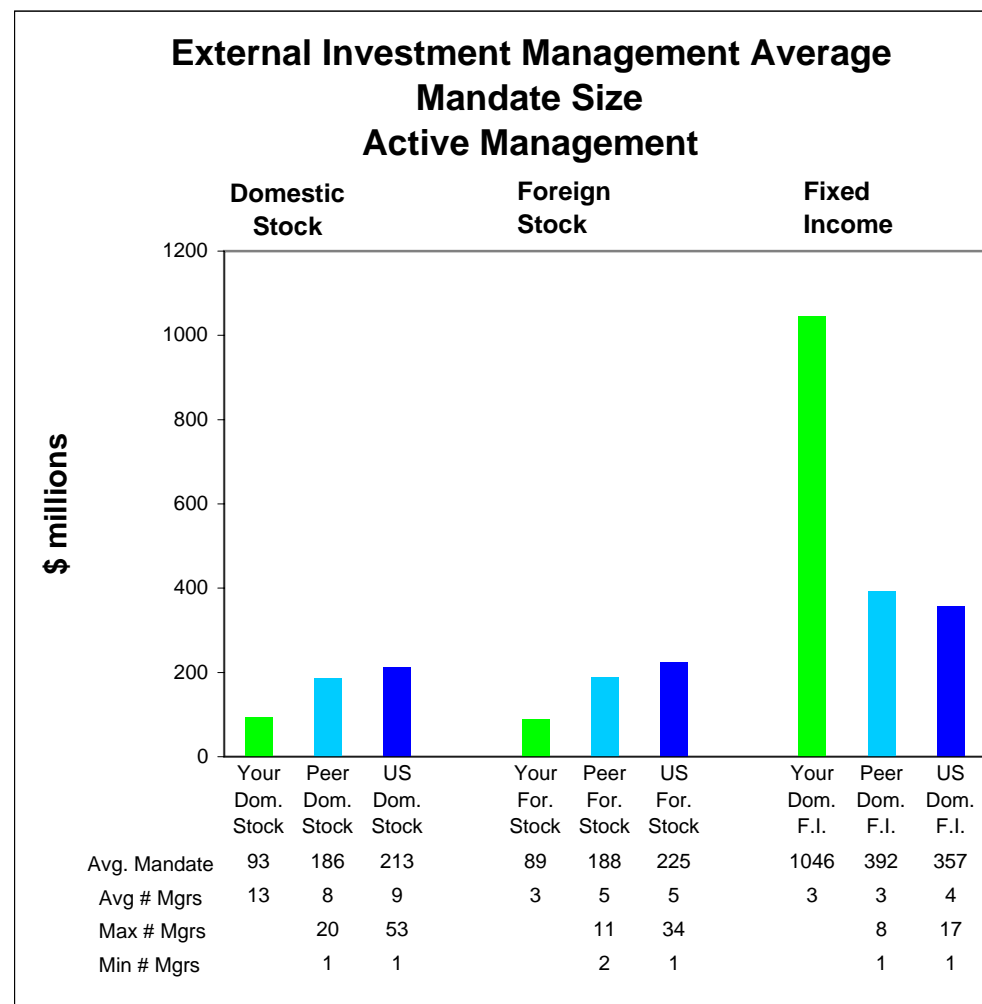
<b><i>Externally Managed Investment Costs</i></b>				
	<b>Your 2003</b>		<b>Peer Median in bps</b>	<b><i>Impact of the difference in \$000's</i></b>
	<b>Avg Holdings in \$mils</b>	<b>Costs in bps</b>		
Domestic Equity - Large Cap - Passive	1,126	2.3	1.6	75
Domestic Equity - Large Cap - Active	523	52.8	32.0	1,090
Domestic Equity - Small Cap - Active	683	55.6	67.8	-832
Foreign Equity - Passive	302	7.0	5.3	52
Foreign Equity - Active	268	48.4	40.0	224
<b>Domestic Fixed Income - Active</b>	<b>3,137</b>	<b>8.7</b>	<b>19.5</b>	<b>-3,392</b>
Venture Capital/LBO (fees pd) - Active F. of	17	239.4	270.8	-52
<b><i>Total External Investment Management Impact in \$000's</i></b>				<b><i>-\$2,834</i></b>
<b><i>Total External Investment Management Impact in basis points</i></b>				<b><i>-4.7 bp</i></b>



### 3. Costs - Do you have smaller mandates?

**Your average mandate size for Fixed Income was much larger than your peers. This was one reason for your lower Fixed Income management costs.**

- Declining asset based fee schedules help funds that give external managers larger mandates to sometimes achieve better cost performance. The impact is usually subtle.
- Your large Fixed Income mandate was due to the significant Fixed Income holdings of your Employee Plan participants.



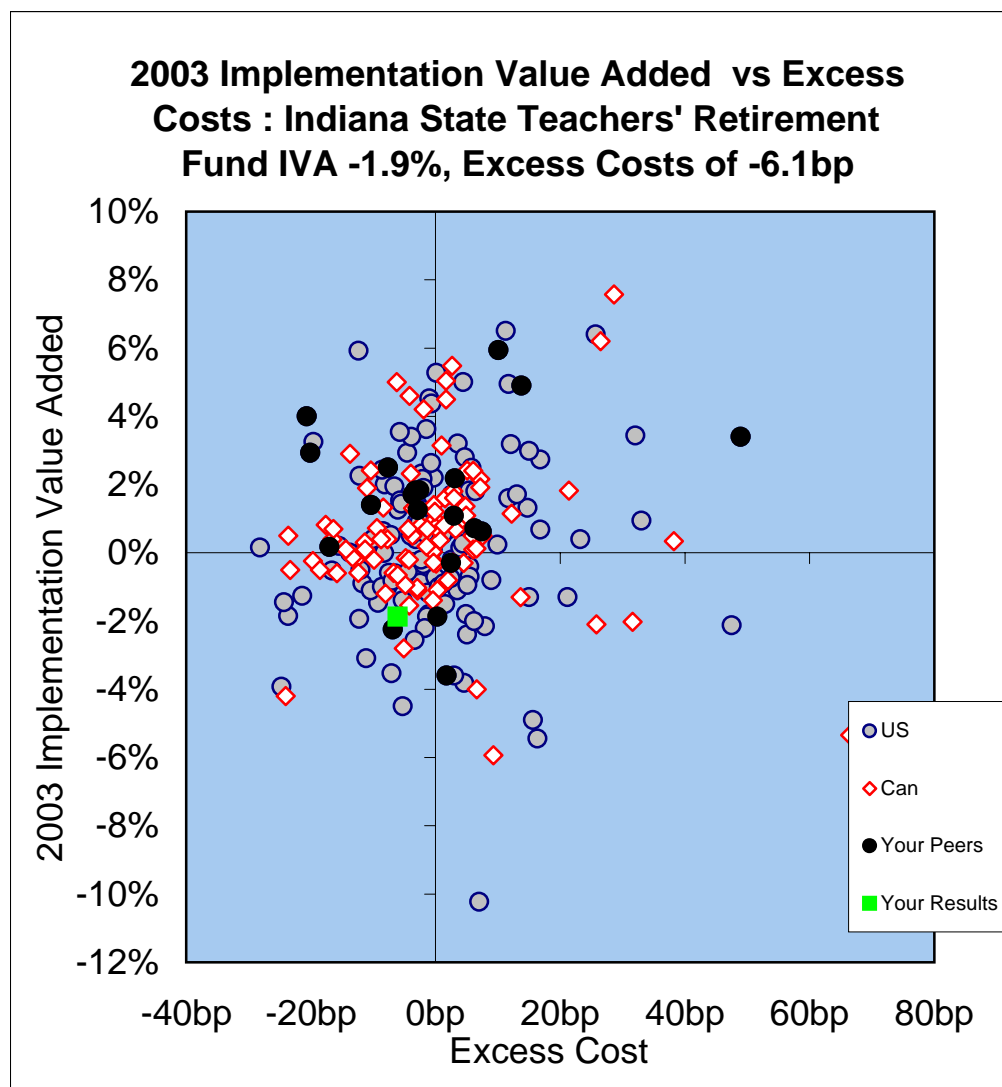
### 3. Costs - Summary

**Your low cost status was primarily due to paying less than your peers for similar services.**

<b>Your 2003 Excess Cost Breakdown</b>		
	<i>Impact in in \$000's</i>	<i>Impact in basis points</i>
Implementation Style Impact	68	0.1
Detailed line item comparisons:		
Oversight, Custodial & Other Costs	-909	-1.5
Externally Managed Investment Costs	-2,834	-4.7
<b>Total Excess Cost</b>	<b>-3,674</b>	<b>-6.1</b>

Cost Effectiveness  
Chart

# Your 2003 Excess Cost vs Implementation Value Added.



#### 4. Asset- Liability Mismatch Risk

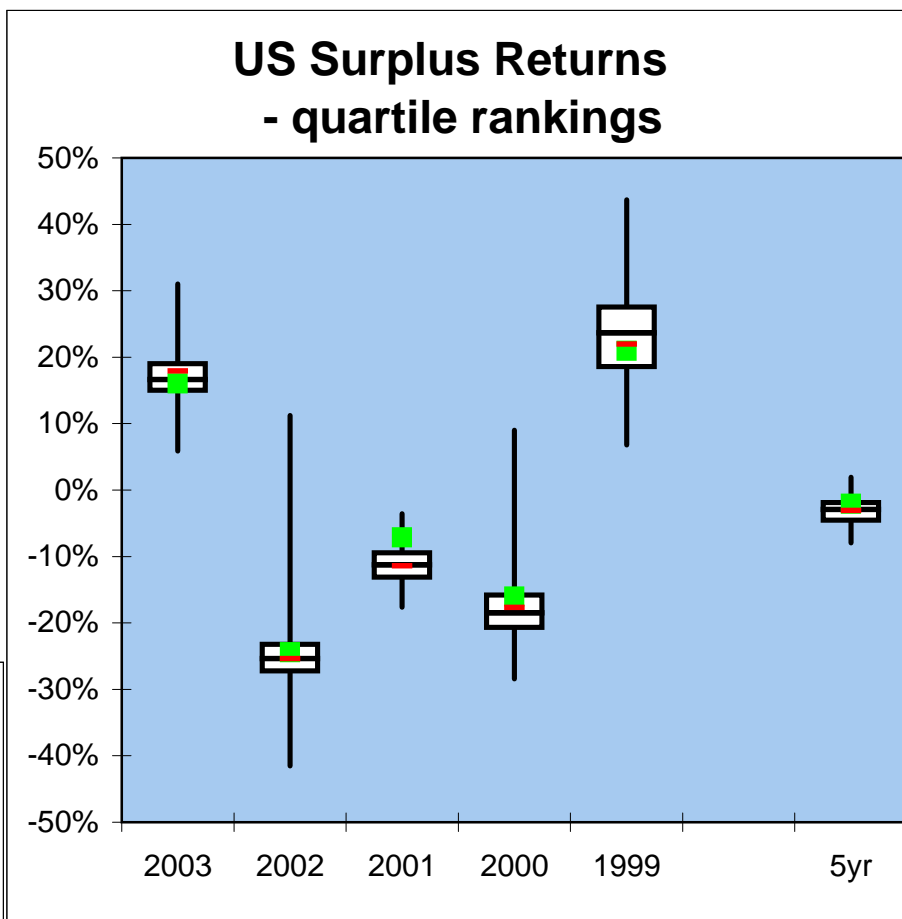
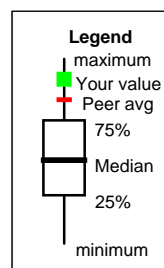
**Liabilities matter. Without pension liabilities, there would be no pension assets. Surplus Returns measure the change in the market value of your assets relative to the change in the market value of your liabilities.**

#### Calculation of Your 5 year Surplus Return

	<u>5-year</u>
+ Total Return	5.2%
- Change in Liabilities caused by market factors ("Liability Return")	7.1%
- Costs	0.2%
= Surplus Return	-2.1%

Your 5 year surplus return was negative. Therefore, the market value of your liabilities grew faster than the market value of your assets.

It compares to a peer median of -2.7% and a US median of -2.9%.



#### 4. Asset- Liability Mismatch Risk

**To measure changes in your liabilities caused by market factors (your "Liability Return"), we construct a neutral asset mix that matches your pension liability profile.**

Your Neutral Asset Mix		
	Modified Duration	% of Assets
Inflation Indexed Bonds	10.0	65%
Nominal Bonds	26.7	35%
Total		100%

*There are two very good reasons why funds do not guarantee their pension liabilities by purchasing their neutral asset mix:*

- Impractical for large funds due to the limited supply of inflation indexed assets.*
- Higher funding costs or lower future benefits because this low risk strategy also has a lower expected return.*

Your neutral asset mix is constructed using a combination of nominal and inflation indexed bonds. It takes into account the sensitivity of your pension liabilities to changes in real and nominal interest rates. It reflects:

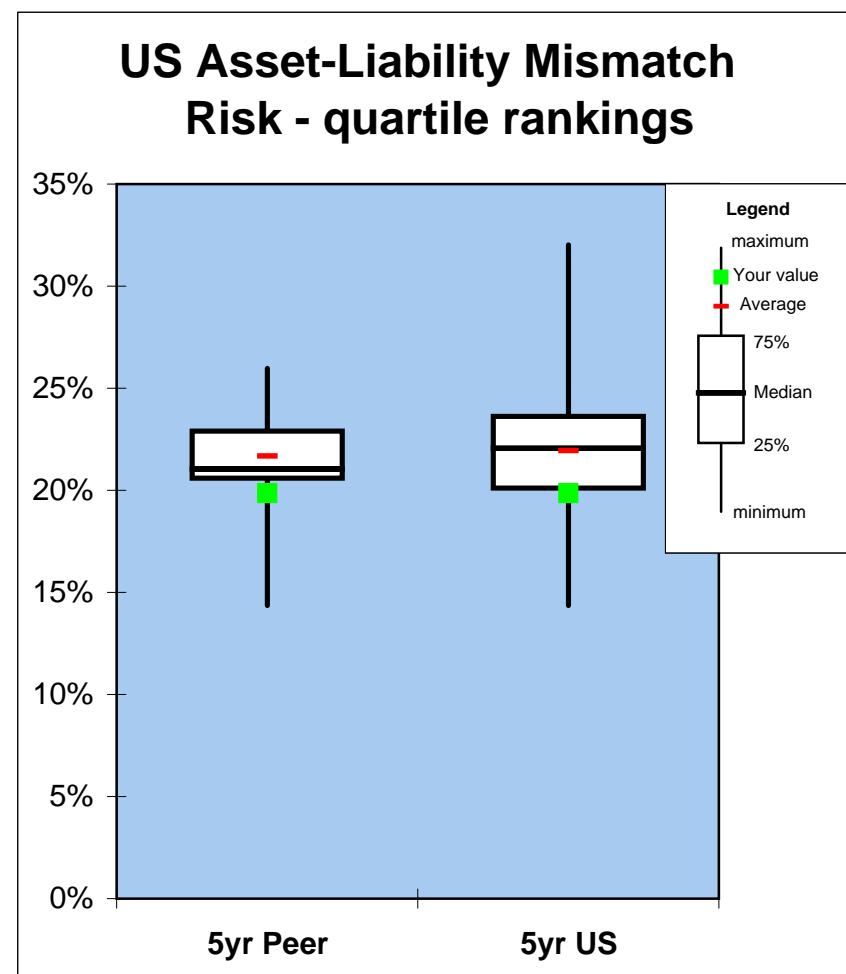
- Your plan type. You have a 5 year highest average plan.
- Your pension promise in terms of post-retirement inflation protection. Your contractual inflation protection for retirees was 0%.
- The proportion of your membership that is active, deferred and retired. Older plans with more retirees have shorter durations than younger plans with more active members.

#### 4. Asset-Liability Mismatch Risk

**Your Asset-Liability Mismatch Risk for the 5 years ending 2003 was 19.9%. This was below the US median of 22.0%.**

Risk is created by the mismatch between your assets and your liabilities. This mismatch is caused by both asset mix policy decisions and implementation decisions.

This analysis implies that 1 year in 20 you can expect to lose in excess of  $1.65 \times 19.9\% = 32.8\%$  relative to your current funded status. Of course, 1 year in 20 you can also expect to gain in excess of the same amount.



## In summary:

### 1. Policy Return

- Your 5 year policy return of 5.4% was in the top quartile of the US universe.

### 2. Implementation Value Added

- Negative value added from implementation decisions (i.e., mostly active management). Your 5 year Implementation Value Added was -0.3% per annum.

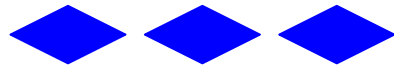
### 3. Costs

- Relative low cost. Your 2003 cost of 20.3 bps was low relative to your Benchmark Cost of 26.4 bp primarily because you generally paid less than your peers for similar services.

### 4. Asset-Liability Mismatch Risk

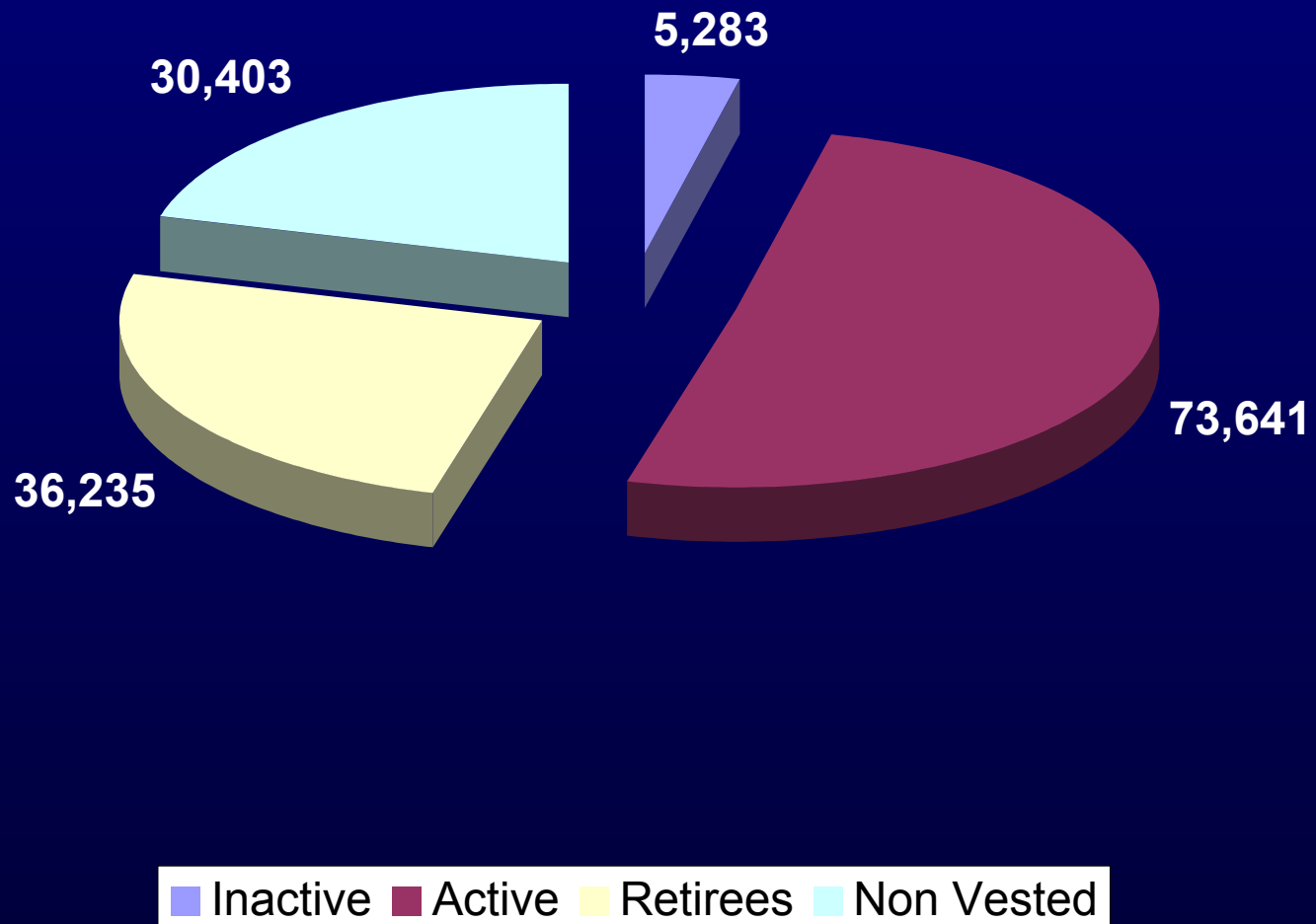
- Your Asset-Liability Mismatch Risk was 19.9%. This compares to the peer average of 21.0% and the US average of 22.0%.

**STATISTICAL**

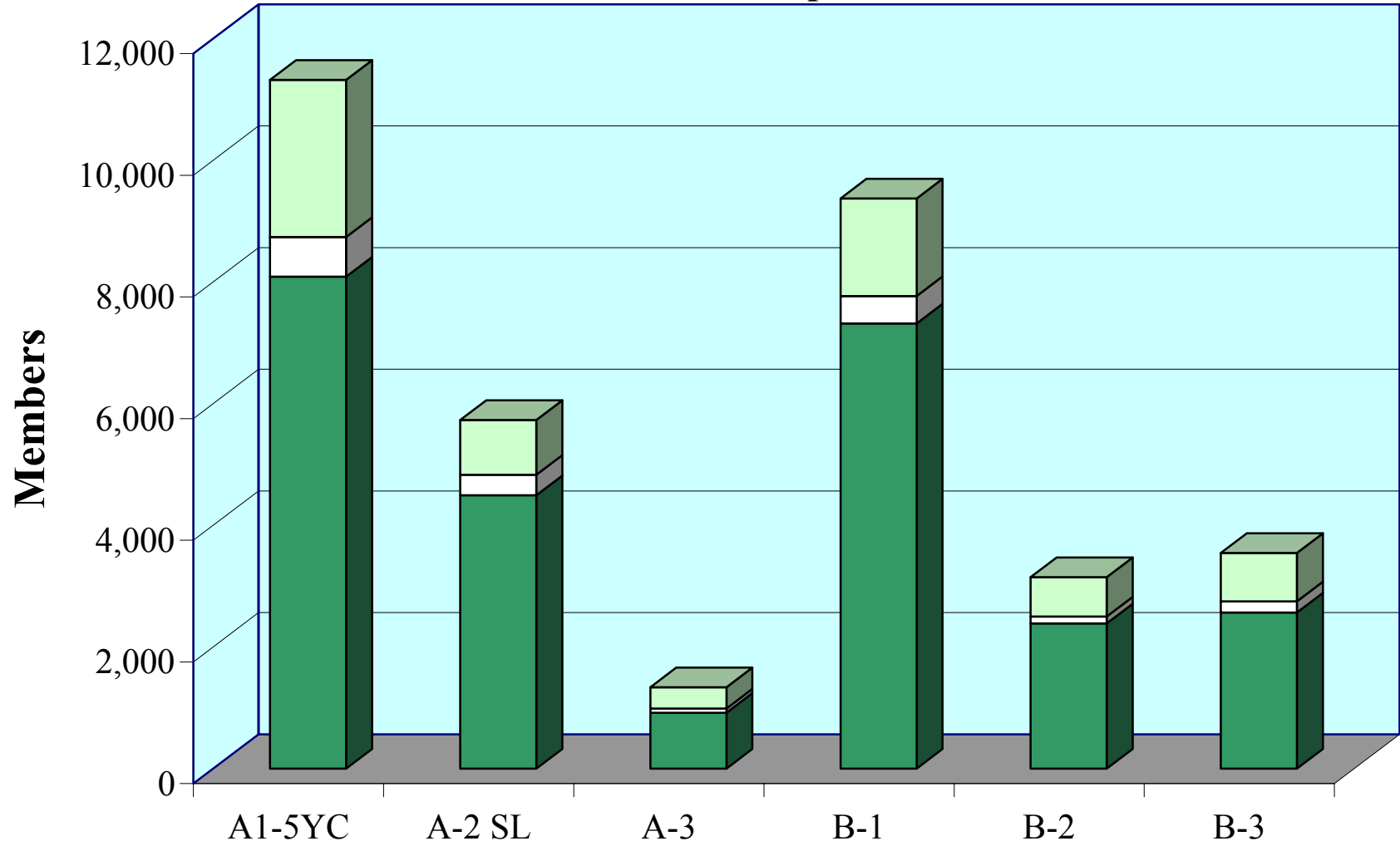




## FUND MEMBERS



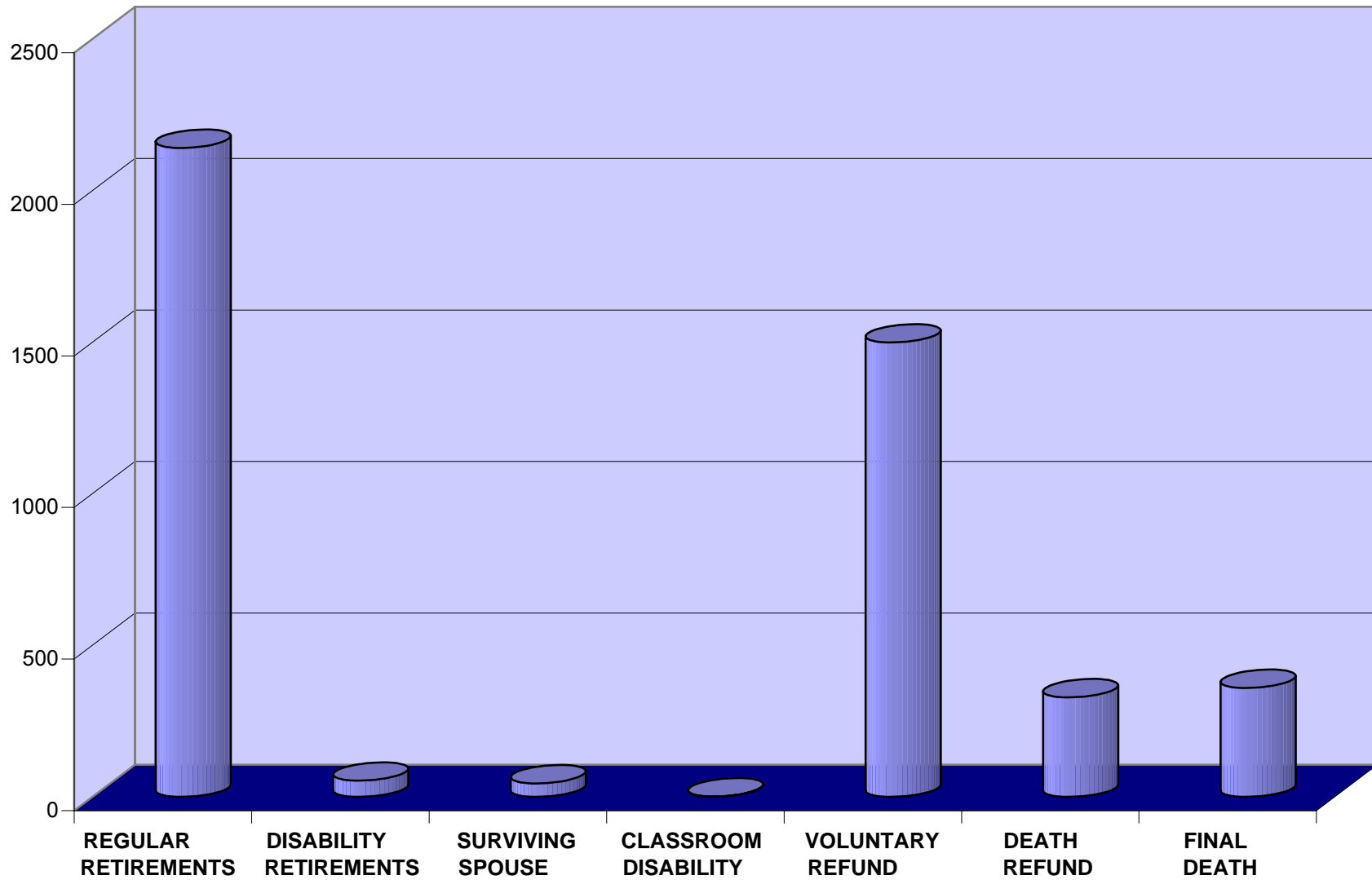
**Retired Member Options**



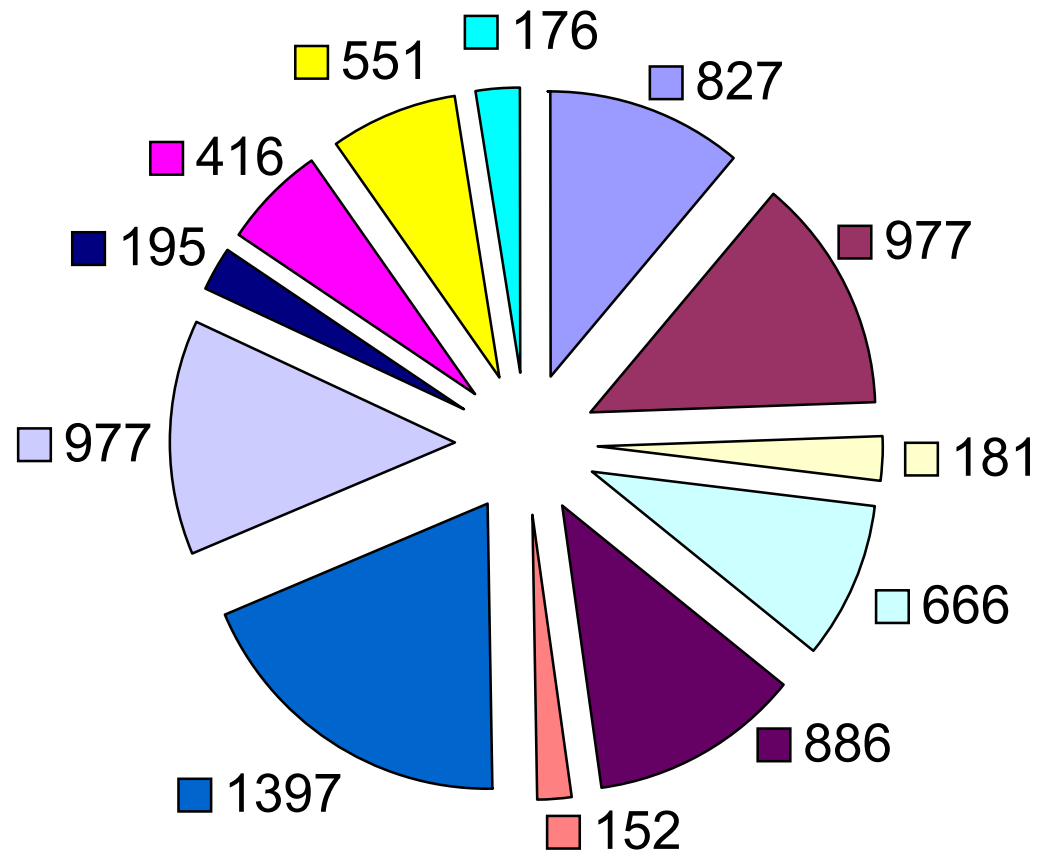
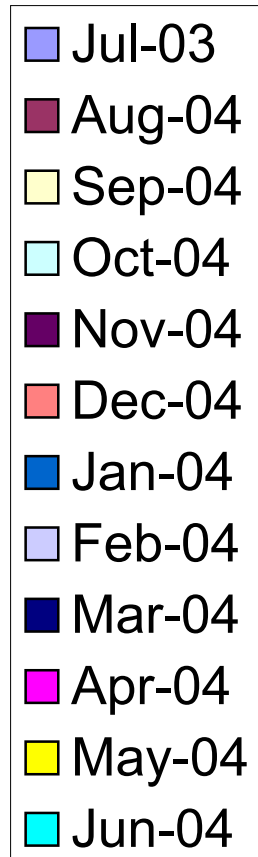
■ Regular □ A-4 ■ SS After 65

**Option**

## DISTRIBUTIONS FOR FISCAL YEAR 2003-2004



## ALLOCATION CHANGES BY MONTH



**CLOSED PLAN**  
**RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2003**  
**TABULATED BY YEAR OF RETIREMENT**

Year of Retirement	Number	Monthly Pensions	
		Total	Average
Before 1950	14	\$ 10,120	\$ 723
1950-1959	58	31,672	546
1960	18	6,262	348
1961	17	6,266	369
1962	29	8,427	291
1963	27	9,182	340
1964	47	19,004	404
1965	50	16,861	337
1966	60	21,119	352
1967	80	27,906	349
1968	109	46,257	424
1969	141	65,222	463
1970	179	86,161	481
1971	244	122,470	502
1972	279	148,445	532
1973	381	218,690	574
1974	413	225,722	547
1975	385	216,040	561
1976	438	252,989	578
1977	507	304,332	600
1978	546	332,962	610
1979	637	392,344	616
1980	680	412,661	607
1981	685	420,941	615
1982	659	410,457	623
1983	731	454,392	622
1984	788	498,257	632
1985	1,117	756,780	678
1986	898	623,259	694
1987	1,035	763,972	738
1988	1,133	889,596	785
1989	895	734,785	821
1990	1,382	1,281,593	927
1991	1,323	1,317,068	996
1992	1,180	1,211,397	1,027
1993	1,232	1,368,298	1,111
1994	1,368	1,543,528	1,128
1995	1,691	1,989,099	1,176
1996	1,677	2,033,275	1,212
1997	1,457	1,778,579	1,221
1998	1,807	2,323,233	1,286
1999	1,650	2,270,088	1,376
2000	1,926	2,794,090	1,451
2001	1,921	2,982,055	1,552
2002	2,190	3,467,057	1,583
2003	1,543	2,518,637	1,632
<b>TOTALS</b>	<b>35,627</b>	<b>\$37,411,550</b>	<b>\$1,050</b>

**NEW PLAN**  
**RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2003**  
**TABULATED BY YEAR OF RETIREMENT**

---

Year of Retirement	Number	Monthly Pensions	
		Total	Average
1974	1	\$ 321	\$ 321
1975	1	250	250
1981	3	1,650	550
1982	1	831	831
1985	1	853	853
1986	2	1,387	693
1987	6	4,300	717
1988	6	4,312	719
1989	6	4,027	671
1990	9	6,624	736
1991	13	9,714	747
1992	10	10,103	1,010
1993	12	9,886	824
1994	12	12,663	1,055
1995	17	17,019	1,001
1996	25	26,583	1,063
1997	28	28,963	1,034
1998	40	43,667	1,092
1999	47	58,437	1,243
2000	60	72,833	1,214
2001	79	104,908	1,328
2002	101	155,352	1,538
2003	128	202,412	1,581
<b>TOTALS</b>	<b>608</b>	<b>\$777,095</b>	<b>\$1,278</b>

## **INCOMING CALL ANALYSIS REPORT**

**Fiscal Year Ending June 30, 2004**

Calls Received by Member Services Center	56,182
Night Calls on Voice Mail	6,674
Average Speed of Answer (in seconds)	14
Incoming Calls Reaching Busy Tone	0%
Average Length of Conversation (in seconds)	145

# BENCHMARKS





**Benefit Administration  
Benchmarking Results**

For the Fiscal Year 2003

**Indiana State Teachers'  
Retirement Fund**

## **The objective of this report is to help you understand:**

1. How your Total Benefit Administration Costs compare to your peers.
2. How Work, Economies of Scale, Service Levels, Member to Staff Ratio, and Complexity impact your costs.
3. What you do differently from your peers.
4. How your Service Levels compare to your peers in key service areas.

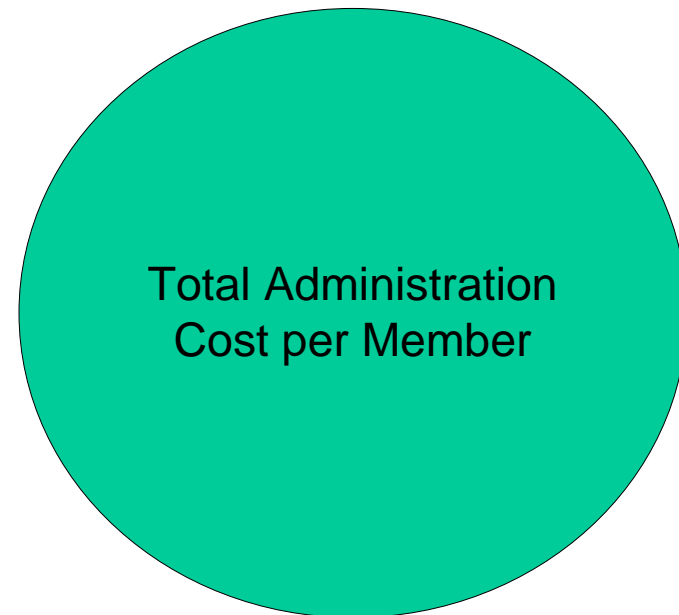
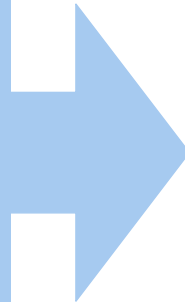
**When evaluating costs and performance, the most relevant comparisons are to systems similar to you in membership and nationality. Your peer group consists of 16 US participants.**

Peer group for Indiana State TRF	Membership in thousands		
	Actives	Annuitants	Total
Arizona SRS	203	71	274
Idaho PERS	62	27	89
Illinois MRF	168	75	243
<b>Indiana State TRF</b>	<b>72</b>	<b>37</b>	<b>109</b>
Iowa PERS	159	74	234
Kern County ERA	8	5	13
KPERS	154	58	212
LACERA	87	49	136
Michigan MERS	36	17	53
MOSERS	58	23	81
Nevada PERS	87	27	114
Oregon PERS	159	92	251
South Carolina RS	231	93	324
STRS Ohio	210	127	337
Texas MRS	90	22	112
TRS Louisiana	88	54	141
Average	117	53	170

**The focus of this analysis is to understand and quantify your costs. Several factors drive costs. We analyze the following 5 key factors:**

Cost Drivers that we measure:

1. **Total Volume**
  - The effect of economies of scale
2. **Service Levels**
  - Timeliness, capability, availability, quality
3. **Work**
  - Transaction Types and Volumes
4. **Member to Staff Ratio**
  - Volume versus your staffing levels
5. **Complexity**
  - The rules & regulations of your system



**Total Administration  
Cost per Member**

**The analysis is activity focused. Your costs, service levels, volumes, and relative workloads are compared to your peers for 12 core administrative activities:**

**1. Paying Pensions**

- Processing pension benefit payments, not including the benefit payment calculation.

**2. Pension Inceptions**

- Calculating and initiating payments for retirements and other new pension streams.

**3. Pension Estimates**

- Calculating pension estimates for service retirements and other new pension streams.

**4. Member Counseling**

- Pre-scheduled 1-on-1 sessions, "walk-ins," and group counseling.

**5. Member Calls**

- Calls to client services or the call center such as: change of address, account status, etc.

**6. Communication**

- Group presentations, Website, Newsletters, Brochures & other general written material.

**7. Collections & Data Maintenance**

- Collections of contributions and maintenance of service credit data, and other employer costs.

**8. Refunds, Terminating Payments**

- Estimating and making final payments to members that terminate any future obligations.

**9. Purchases & Transfers-In**

- Service credit purchases, transfers-in of monies from other systems.

**10. Disability Pensions**

- Disability applications and inceptions, appeals, rehabilitation.

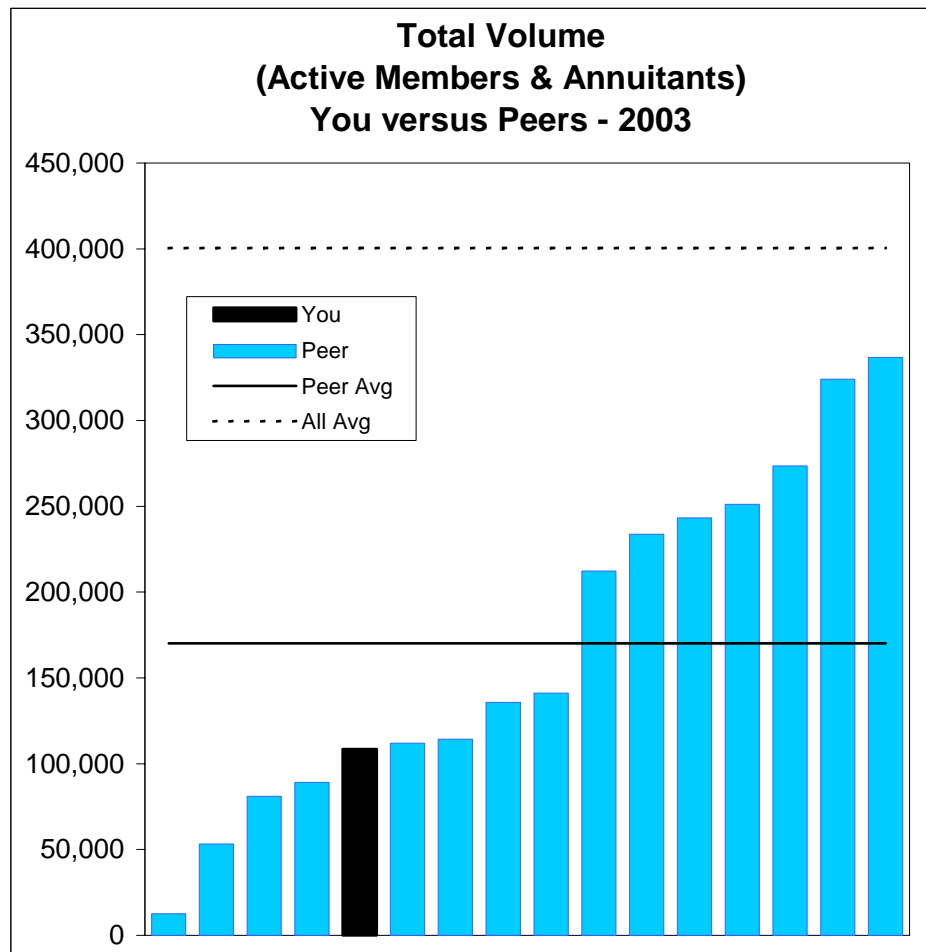
**11. Financial Control & Governance**

- CEO's office, financial reporting, budgeting and forecasting, strategic planning.

**12. Plan Policy & Design**

- Rules development, government relations.

**Your Total Volume is 108,500 Active Members & Annuitants. This compares to a peer average of 170,103.**

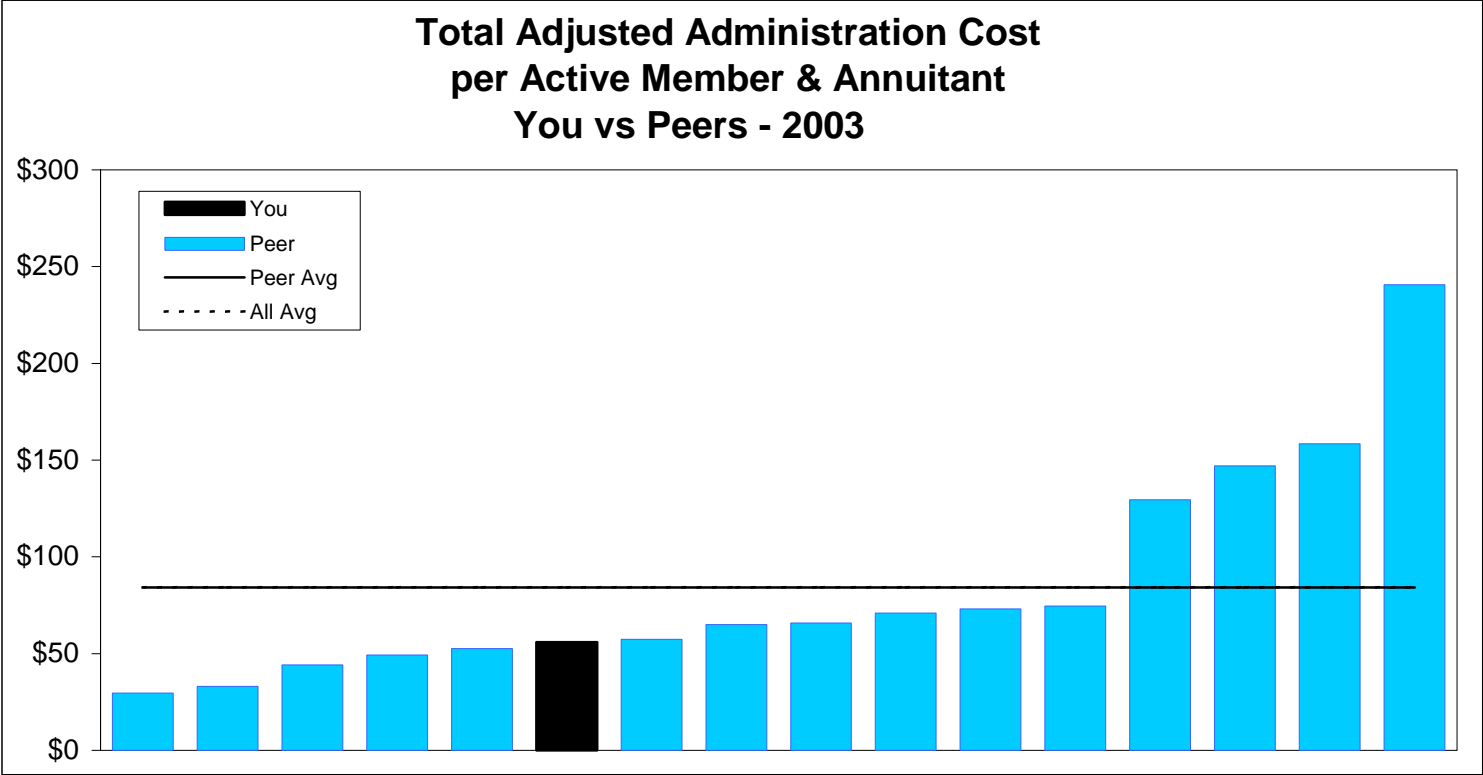


Total Volume matters most for systems with 50,000 or fewer active members & annuitants. These smaller systems have a scale disadvantage.

**This analysis is based on your Total Adjusted Administration cost of \$6.1M. It is your total benefit administration cost excluding non-pension costs and including multi-year average major projects costs.**

Total Adjusted Administration Cost for Indiana State TRF		
Activity		\$000's
1. Paying Annuity Pensions		464
2. Annuity Pension Inceptions (non-disability)		506
3. Written Pension Estimates		73
4. Counseling		305
5. Member Contacts: Calls, Emails, Letters		555
6. Mass Communication to Members and Annuitants		449
7. A-C Collections and Data Maintenance		636
7. D Service to Employers		4
8. Refunds, Transfers-out, Terminating Payments		159
9. Purchases and Transfers-in		85
10. Disability		46
11. A-D Financial Control and Governance		731
12. A-C Plan Design and Rules Development		379
13. Non-Pension and Optional Benefits		1
14. Major Projects and Non-recurring		244
Total Benefit Administration Costs		4,634
Adjustments:		
subtract	13 Non-Pension and Optional Benefits	1
subtract	14 Major Projects and Non-recurring	244
add	3-year average Major Project Cost	1,671
<b>Total Adjusted Administration Cost</b>		<b>\$6,061</b>

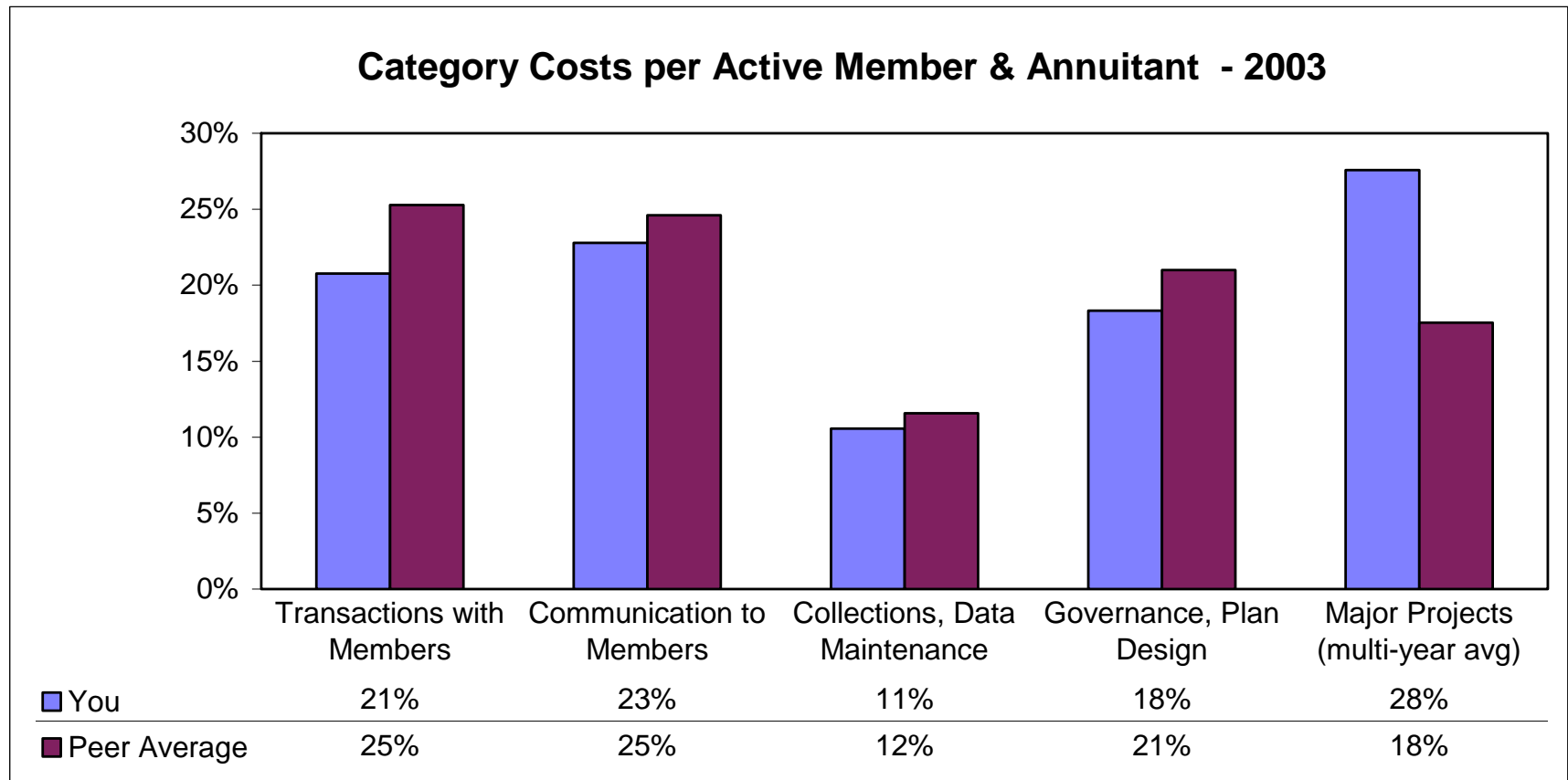
**Your Total Adjusted Administration Cost was \$56 per active member & annuitant. This is below the average of \$84 for your peers.**



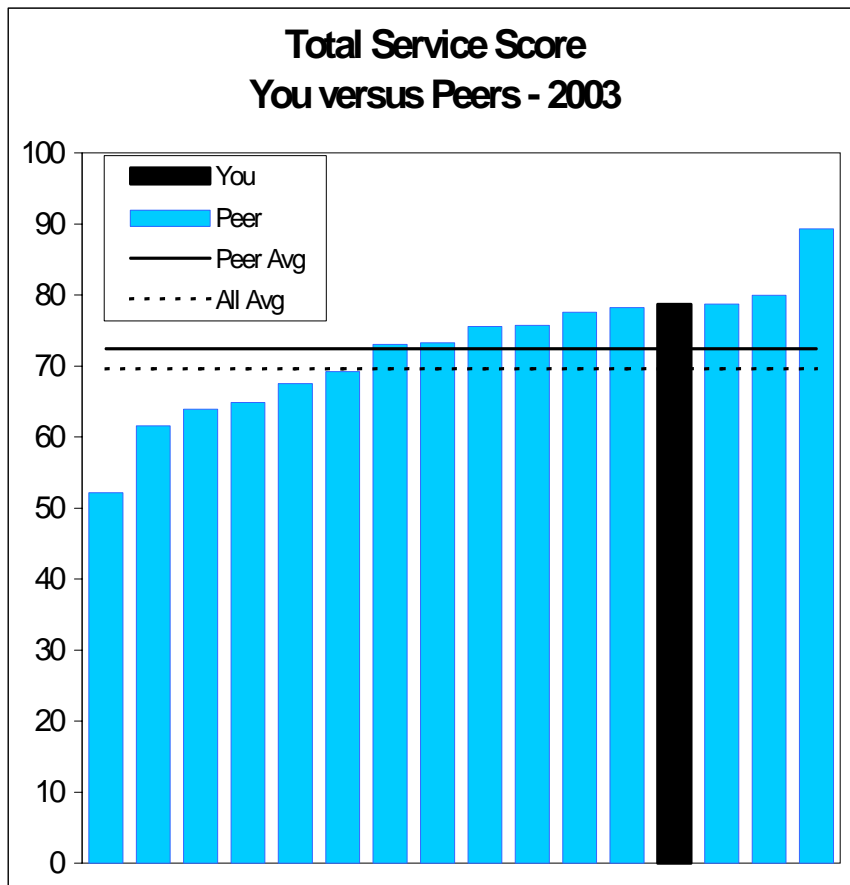


Adjusted Administration Costs by Category and Activity						
Activities and Summary Categories	% of Total Cost			\$Cost per active member & annuitant		
	You	Peer Avg	All Avg	You	Peer Avg	All Avg
<u>Member Transactions</u>						
1 Paying Pensions	8%	6%	6%	4.3	4.4	4.2
2 Pension Inceptions	8%	7%	8%	4.7	5.0	5.8
8 Refunds	3%	3%	6%	1.5	2.3	5.2
9 Purchases	1%	4%	4%	0.8	3.8	3.9
10B Disability	<u>1%</u>	<u>6%</u>	<u>5%</u>	<u>0.4</u>	<u>6.7</u>	<u>4.8</u>
	21%	25%	29%	11.6	22.2	24.1
<u>Communication to Members</u>						
3 Estimates	1%	3%	3%	0.7	2.7	2.5
4A 1-on-1 Counseling	5%	4%	3%	2.6	3.8	3.2
4B Group Counseling	0%	1%	1%	0.2	1.5	0.8
5 Member Contacts	9%	8%	8%	5.1	6.7	6.9
6 Mass Communication	<u>7%</u>	<u>8%</u>	<u>8%</u>	<u>4.1</u>	<u>6.8</u>	<u>7.2</u>
	23%	25%	24%	12.7	21.5	20.6
<u>Collections and Data Maintenance</u>						
7A Data from Employers	3%	6%	8%	1.6	5.0	6.8
7B Data Not from Employers	7%	2%	2%	4.1	1.6	1.9
7C Billing and Inspection	0%	1%	1%	0.1	0.6	1.0
7D Service to Employers	<u>0%</u>	<u>2%</u>	<u>2%</u>	<u>0.0</u>	<u>1.5</u>	<u>2.0</u>
	11%	12%	14%	5.9	8.7	11.6
<u>Governance and Planning</u>						
11A Board of Directors	4%	4%	4%	2.1	2.6	3.0
11B Financial Control	8%	10%	9%	4.4	7.7	7.5
11C Board Consulting	0%	1%	1%	0.2	1.4	1.1
11D Marketing, PR	0%	0%	0%	0.0	0.2	0.5
12A Rules Interpretation	3%	2%	2%	1.7	1.5	1.4
12B Design, New Rules	3%	2%	2%	1.5	1.8	1.4
12C Influencing Change	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>0.4</u>	<u>0.6</u>	<u>0.5</u>
	18%	21%	18%	10.2	16.8	15.5
14 Major Projects (multi-year average)	28%	18%	15%	15.4	15.0	12.3
<b>Total Adjusted Administration Cost</b>	100%	100%	100%	55.9	84.2	84.1

**You spend the largest proportion of your budget on Major Projects. Your peers' largest cost areas are Transactions with Members and Communication to Members.**



**Your Total Service Score was 79. This was above the peer average of 72.**



- Your service levels were above the peer average in 7 of the 11 administrative activities.

**It is important to remember that:**

- Higher service is not necessarily optimal or cost effective.
- The service must be important to you and your members.

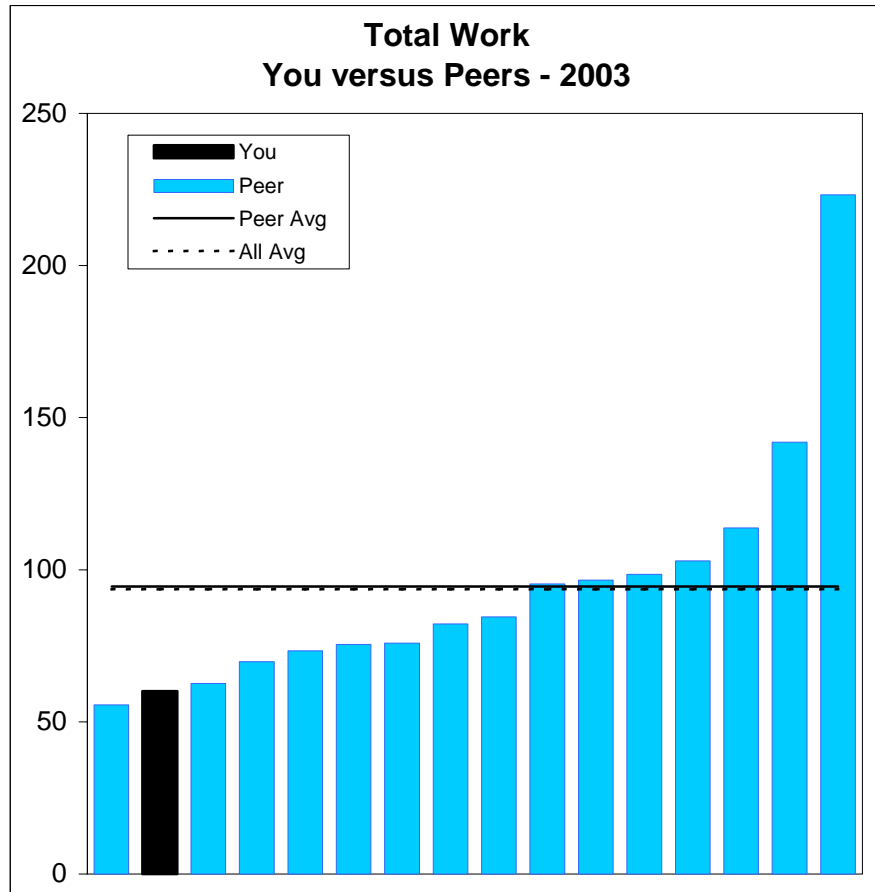
Here is how you compare to your peer group for the service metrics that are most important to members and retirees.

Select Key Service Metrics	You	Peer Avg
<u>Member Contacts: Calls, emails, letters</u>		
• What percent of calls result in desired outcomes (reach knowledgeable person, needs satisfied by self-serve options) as opposed to undesired outcomes (such as busy signals, messages, hang-ups).	90%	89%
• What was the average total wait time in seconds to reach a knowledgeable person, including time waiting on hold, time navigating auto-attendant, receptionist redirection time, etc.	39 secs	90 secs
• Can you provide members with an immediate real time estimate of their benefits at retirement over the telephone?	No	56% yes
<u>Website</u>		
• Are all, some or none of your forms available online?	All	51% All
• Do members have access to their own data in a secure environment?	Yes	38% yes
• Do you have an online calculator on your website?	Yes	94% yes
<u>Member Statements</u>		
• On average, how current is a member's data in the statements that the member receives (in months)?	3.0	2.8
• Do your statements for active members include:		
- Pensionable earnings as at the date of the statement?	Yes	94% yes
- An estimate of the future pension entitlement (or in Australia, the lump sum benefit payout at retirement) based on age scenario modeling or assuming the member continues to work until earliest possible retirement?	Yes	75% yes
<u>Annuity Pension Inceptions (non-disability)</u>		
• What percent of annuity pension inceptions are paid without an interruption of cash flow greater than 1 month between the final pay check and the first pension check?	100%	79%

## Your Service Scores by Activity compare to your peers as follows:

Service Scores by Activity			
Weight	Activity	Your Score	Peer Average
18.9%	1 Paying Annuity Pensions	97	95
7.9%	2 Annuity Pension Inceptions (non-disability)	88	72
5.0%	3 Written Pension Estimates	51	65
11.3%	4 Counseling	64	72
21.5%	5 Member Contacts: Calls, Emails, Letters	89	65
21.8%	6 Mass Communication:	75	70
	a) Member Presentations (15%)	65	68
	b) Website (30%)	85	72
	c) Electronic Delivery (5%)	0	7
	d) Newsletters (15%)	75	75
	e) Member Statements (30%)	96	85
	f) Other Mass Communication (5%)	0	30
4.0%	7D Service to Employers	46	67
0.3%	8 Refunds, Transfers-out, Terminating Payments	75	62
3.3%	9 Purchases and Transfers-in	90	60
5.1%	10B Disability	45	55
1.0%	11A-D Financial Control and Governance	79	53
100.0%	Total Service Score	79	72

## Your Total Work score was 60. This is below the peer average of 94.

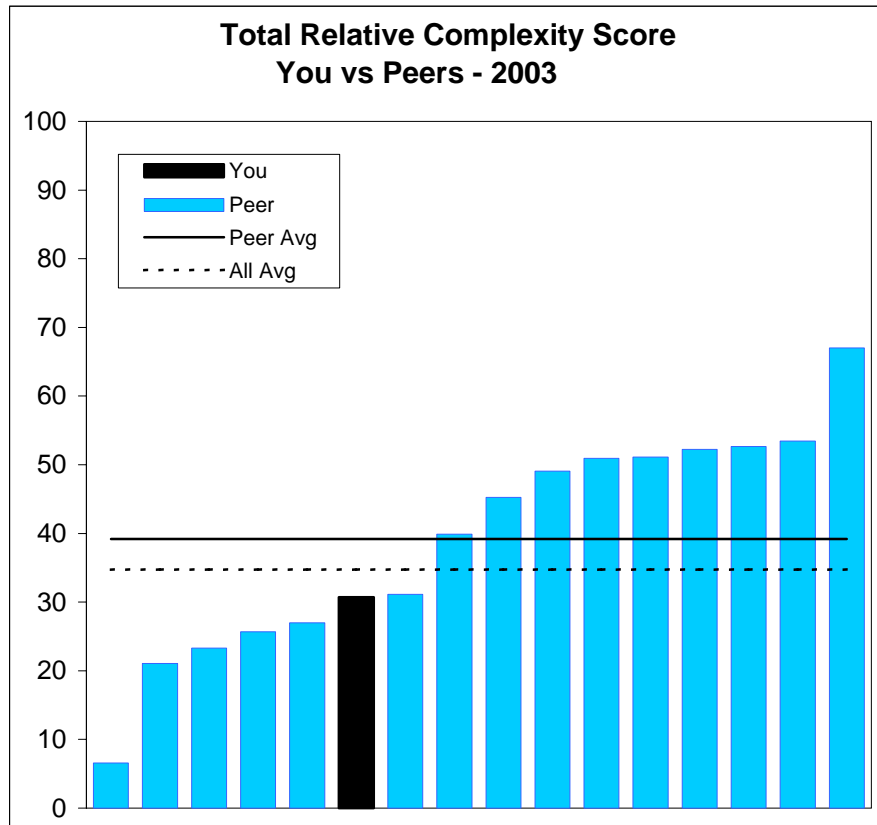


Total Work measures whether you are doing more or less work per active member & annuitant than your peers. Work equals your transaction volumes, such as the number of member calls or newsletters mailed, multiplied by our estimate of the average cost of all participants to perform each transaction.

Examples of why your Total Work score is below the peer average include:

- Fewer new payee inceptions - You do 21 new payee inceptions for every 1000 active members & annuitants versus a peer average of 26. Fewer new payee inceptions results in less work in inceptions and related activities such as estimates, counseling and calls.
- Fewer purchases & transfers-in - You do 3 purchases & transfers-in for every 1000 active members & annuitants versus a peer average of 23.
- Fewer disability applications - You receive 0.5 disability applications for every 1000 active members & annuitants versus a peer average of 3.0.
- Fewer written estimates - You do 24 written estimates for every 1000 active members & annuitants versus a peer average of 77.
- Fewer calls, emails and letters - You receive 625 calls, emails and letters for every 1000 active members & annuitants versus a peer average of 1,109.

**Your Total Relative Complexity Score was 31. This is below the average of 39 for your peers.**



Complexity is caused by two factors:

1. Multiple member groups with different rule sets.
2. Complex rules. For example, many systems need to keep track of multiple mortality tables that depend on the member's hire date.

The Complexity Scores are relative measures. Relative measures rank all participants from relatively least to relatively most complex on a scale of 0 to 100.

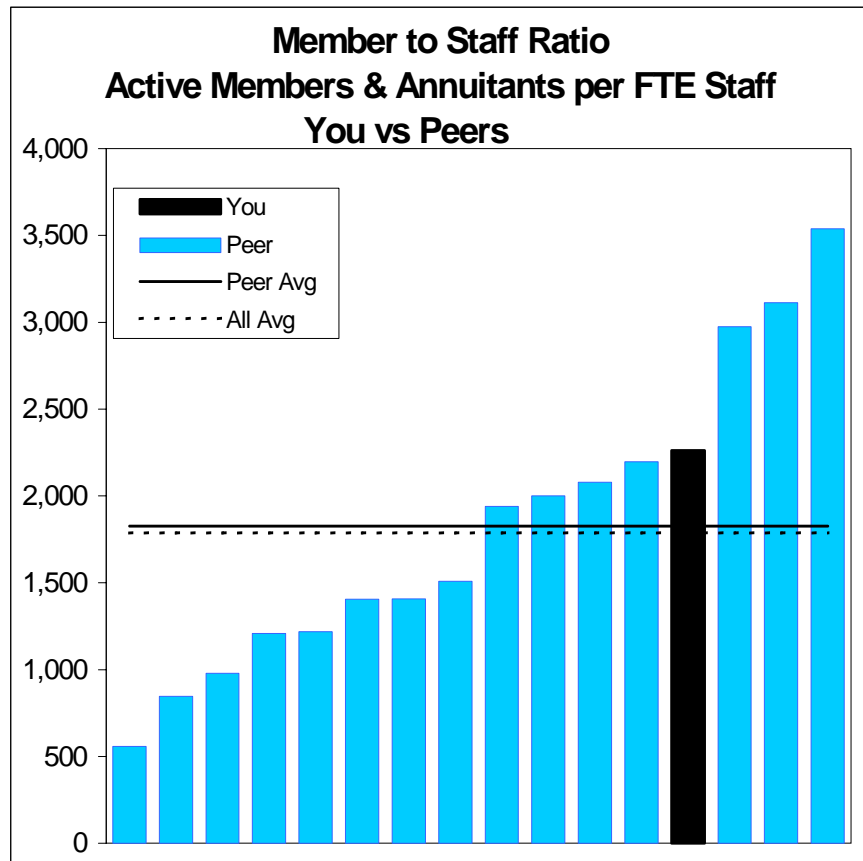
A low Relative Complexity score does not mean that your system is not complex, rather it means only that your system is relatively less complex than your peers.

## Your Relative Complexity by underlying cause compares to your peers as follows:

Relative Complexity Ratings by Cause			
Complexity: 0 least - 100 most			
Weight	Underlying Cause	Your	Peer Avg
15.0%	A. Pension Payment Options	71	53
20.0%	B. Customization Choices	2	6
10.0%	C. Multiple Plan Types and Overlays	53	27
16.0%	D. Multiple Benefit Formula	7	37
3.0%	E. External Reciprocity	65	17
4.0%	F. COLA Rules	0	31
3.0%	G. Contribution Rates	16	43
4.0%	H. Variable Compensation	85	83
3.0%	I. Service Credit Rules	54	45
3.0%	J. Divorce Rules	0	60
5.5%	K. Purchase Rules	42	56
4.0%	L. Refund Rules	46	39
6.0%	M. Disability Rules	42	68
0.5%	N. Translation	0	3
3.0%	O. Defined Contribution Rules	18	10
100.0%	Weighted Average (before scaling)	32	36
	Scaled Total Complexity	31	39



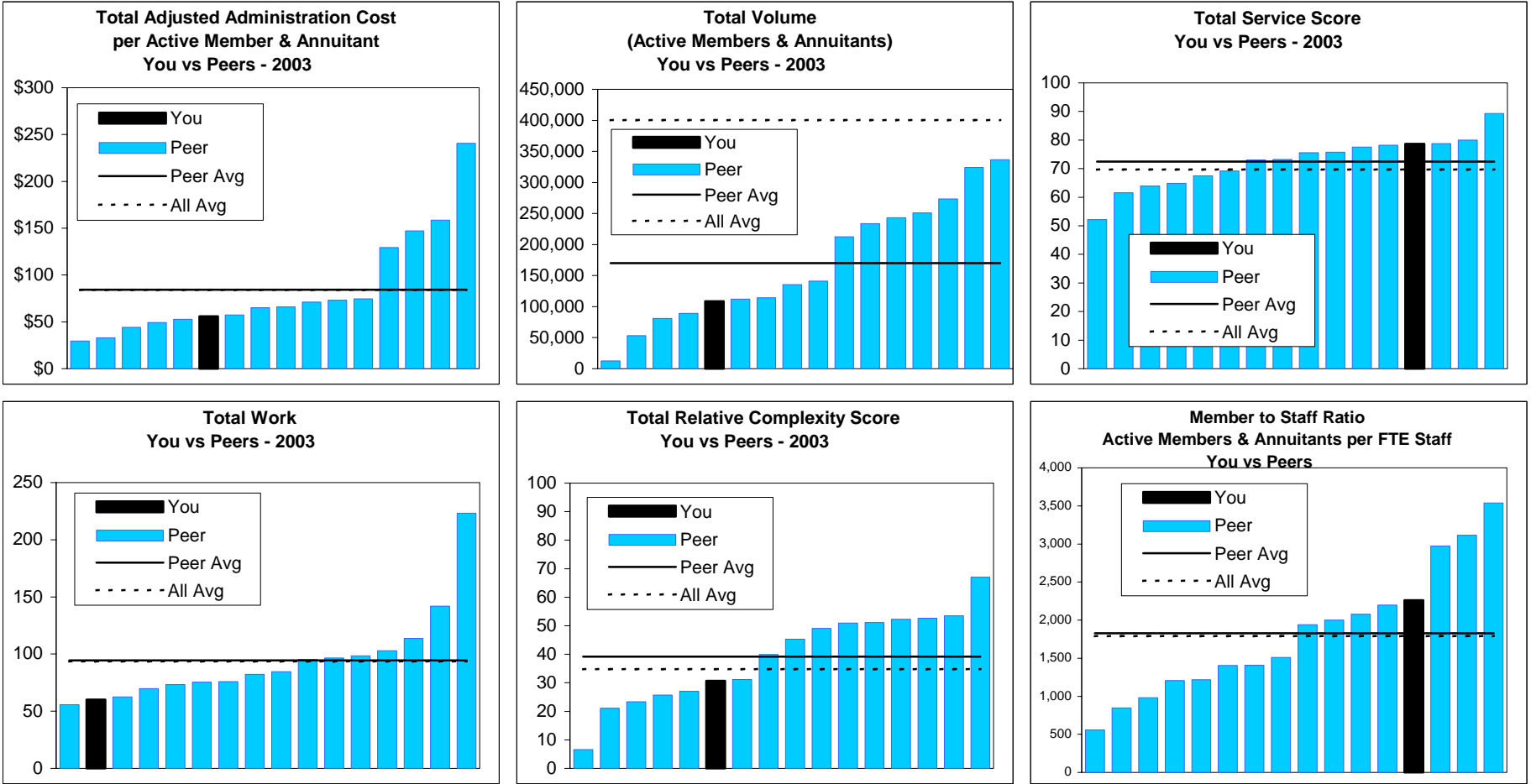
**Member to Staff Ratio: You administer 2,260 active members & annuitants per full-time equivalent (FTE) staff. This is above the peer average of 1,827.**



Participants with higher ratios of active members & annuitants per FTE staff tend to be lower cost. We expect that the participants that service the highest number of active members & annuitants per FTE Staff have either more automation, barebone services, lower complexity or a combination of these things.

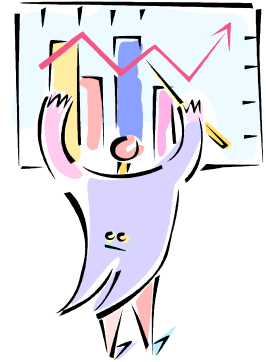
In summary, you are in the enviable position of having below average costs and above average service.

Factors partially explaining your lower costs include your lower Total Work Score and Your lower Total Complexity.



## Here are some industry trends that CEM has observed.

- **Overall Service to members has improved. The US average Service Score in 2001 was 64 and 71 in 2003.**
- **Improvements to the member websites include:**
  - All US systems now provide some Forms On-line versus 67% in 2001.
  - 95% of US systems now have On-line Calculators versus 76% in 2001.
  - 38% of US systems now provide Secure Member Account Access versus 14% in 2001.
- **Contact Center service has generally improved as well:**
  - For example, the number of calls resulting in a desirable outcome has risen from 88% to 94% in 2003.
  - For the industry, call wait time has remained constant. 132 seconds in 2001 and 134 seconds in 2003.
- **1 on 1 Counseling volumes on average are lower. This reflects an industry trend of systems moving away from high touch services to more cost effective Online Service and Group Counseling.**
- **In the past three years, 7 participating systems have added a DC component.**



**FISCAL YEAR ACCOMPLISHMENTS AND GOALS**



# Fiscal Year 2005 Accomplishments and Goals

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- **Offer Pre-Tax Contribution Option for Members.**  
Completed in prior fiscal year.
- **Enhance communication and educate prospective retirees.**  
Complete. Video-conferences conducted semi-annually, pre-retirement workshops held throughout the State from September through June and video-streaming employed to summarize retirement options.
- **Advance *Fund* website options.**  
Complete. Quarterly Statements and Direct Deposit Vouchers archived on the website, "Search Engine" and Knowledge Base" available for acquiring information and "Live Chat" offered as a means of communications via text-messaging.
- **Expand Employer-*Fund* communications.**  
Complete. Newsletters mailed quarterly and video-conferences designated for employers only, held annually.
- **Streamline initial check payment process.**  
Ongoing. Direct deposit utilized for 85% checks.
- **Alleviate cumbersome language and simplify instructions for Retirement applications.**  
Ongoing.
- **Increase productivity with Telephony Software.**  
Ongoing. Software will identify caller, past history and reason for the call without searching various systems and screens.
- **Asset Allocation Initiative.**  
Ongoing. Design will improve investment performance.
- **Encourage employers to submit electronic reports.**  
Ongoing. Initiative will increase employer participation and use of web-based applications.

# Fiscal Year 2004 Accomplishments and Goals

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- **Introduce system of telephone counseling to decrease member travel time.**  
Complete.
- **Finalize transition to SIRIS (State of Indiana Retirement Information System).**  
Complete (Fiscal years 2002/2003).
- **Issue quarterly benefit entitlement statements to active members.**  
Complete.
- **Implementation of Voluntary Pre-Tax Contribution Option for Active Members.**  
Ongoing.
- **Improve communication with potential retirees.**  
Ongoing. Initiated pre-retirement workshops via video-conferencing.
- **Continue to Improve *Fund's* website.**  
Ongoing.
- **Improve Employer-*Fund* communications.**  
Ongoing. Initiated employer quarterly newsletters and video-conferencing sessions.
- **Discover additional ways of utilizing electronic processes to promote paperless operating systems.**  
Ongoing. Capabilities to view monthly direct deposit receipts on the web. Members may now opt out of receiving paper receipts via mail and may also opt out of receiving paper copies of quarterly statements.

# Fiscal Year 2003 Accomplishments and Goals

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- **Audit Member Health Plan Coverage.**  
Complete.
- **Initiate new asset allocation study for employer funds.**  
Complete.
- **Initiate electronic reporting for employers.**  
Complete. Employers may deposit funds through EFT and use electronic messaging to provide wage and contribution reports.
- **Diversification into public securities, including venture capital and real estate.**  
Complete.
- **Continue Benchmarking process.**  
Ongoing.
- **Continue to provide quality service delivery and enhance system operations.**  
Ongoing.
- **Develop member surveys to evaluate services.**  
Ongoing.
- **Change Health Plan and Advisor.**  
Ongoing. New Health Plan Advisor selected.
- **Continue to improve member education processes.**  
Ongoing.
- **Review work processes and modify as needed to enhance system operations.**  
Ongoing.

# Fiscal Year 2002 Accomplishments and Goals

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- **Issue annual benefit entitlement statement to active members.**  
Complete.
- **Begin and finalize Benchmarking Investment Processes.**  
Complete.
- **Seek to develop a variable annuity option.**  
Complete. A variable annuity option was found to be not viable.
- **Improve benefit estimate format.**  
Ongoing.
- **Enhance call center performance by utilizing the latest technology.**  
Ongoing.
- **Complete feasibility and implementation study for obtaining record-keeping services for Annuity Savings Investment Account program.**  
Ongoing.
- **Develop a process for employers to report employee contributions on a “payroll by payroll” basis.**  
Ongoing.
- **Continue Benefits Management Benchmarking process.**  
Ongoing (*See details in “Benchmarking” section*).
- **Establish in-service programs for staff.**  
Ongoing.
- **Continue to improve member education processes.**  
Ongoing. Educational information and quarterly newsletters are available on the website.
- **Work jointly with PERF to improve out-reach programs.**  
Ongoing.